



0000045916

E THE ARIZONA CORPORATION COMMISSION

RECEIVED

1999 SEP 24 A 11:35

AZ CORP COMMISSION
DOCUMENT CONTROL

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE JOINT
APPLICATION OF SUN CITY WATER
COMPANY AND SUN CITY WEST
UTILITIES COMPANY FOR APPROVAL OF
CENTRAL ARIZONA PROJECT WATER
UTILITIZATION PLAN AND FOR AN
ACCOUNTING ORDER AUTHORIZING A
GROUNDWATER SAVINGS FEE AND
RECOVER OF DEFERRED CENTRAL
ARIZONA PROJECT EXPENSES.

DOCKET NO. W-01656A-98-0577
SW-02334A-98-0577

**NOTICE OF FILING
REBUTTAL TESTIMONY**

Citizens Utilities Company hereby provides Notice of Filing Rebuttal
Testimony for Carl W. Dabelstein, Ray L. Jones, Terri Sue C. Rossi, and Blain
Akine in the above-referenced docket.

RESPECTFULLY SUBMITTED this September 24, 1999.

Craig A. Marks
Associate General Counsel
Citizens Utilities Company
2901 N. Central Avenue, Suite 1660
Phoenix, Arizona 85012

Original and ten copies filed this
September 24, 1999, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

SEP 24 1999

DOCKETED BY

1 Copies of the foregoing mailed/delivered
2 this September 24, 1999, to:

3 Jerry Rudibaugh
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

7 Paul Bullis
8 Arizona Corporation Commission
9 1200 West Washington
10 Phoenix, Arizona 85007

11 Deborah R. Scott
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Scott Wakefield
16 RUCO
17 2828 North Central Avenue
18 Suite 1200
19 Phoenix, Arizona 85004

20 Michael A. Curtis
21 William P. Sullivan
22 MARTINEZ & CURTIS
23 2712 N. 7th Street
24 Phoenix, Arizona 85006

25 Walter W. Meek
26 AUIA
27 2100 North Central Avenue
28 Suite 210
29 Phoenix, Arizona 85004

William G. Beyer
Beyer, McMahon & LaRue
10448 W. Coggins, Ste. C
Sun City, Arizona 85351

By:


Joann Zychlewicz

1 **INTRODUCTION**

2 Q. Please state your name and address.

3 A. My name is Carl W. Dabelstein. My business address is 2901 North
4 Central Avenue, Suite 1660, Phoenix, Arizona, 85012.

5
6 Q. By whom are you employed and in what capacity?

7 A. I am employed by Citizens Utilities Company ("Citizens") as Vice President-
8 Regulatory Affairs for its Public Service Sector, the portion of Citizens that
9 provides electric, gas, water or wastewater utility service through operating
10 divisions and subsidiaries in ten states, including Arizona.

11
12 Q. Please state your professional qualifications.

13 A. A description of my education and professional qualifications is attached as
14 Appendix A.

15
16 **PURPOSE OF TESTIMONY**

17 Q. What is the purpose of your testimony?

18 A. The purpose of my testimony is to adopt the testimony of Mr. Charles Loy
19 previously submitted in this proceeding, to recompute the proposed rates
20 based on updated cost and customer data, and to respond to certain
21 portions of the testimonies filed by other parties to this proceeding.

22
23 Q. Why are you adopting Mr. Loy's testimony?

24 A. Mr. Loy is no longer with Citizens.

25
26 Q. Why is it necessary to revise any of the schedules filed by Mr. Loy?

27 A. In his direct testimony, Mr. Loy provided cost and customer data used to
28 develop the method and rates he proposed for recovering the deferred and
29

1 on-going costs associated with the Central Arizona Project ("CAP") incurred
2 by Sun City Water Company ("Sun City") and Sun City West Utilities
3 Company ("Sun City West"). This was characterized as the Groundwater
4 Savings Project Fee.

5
6 Citizens filed this application on October 1, 1998. Nearly a year has passed
7 since that time. There have been additional CAP payments made that were
8 not reflected in the rates developed by Mr. Loy that were intended to
9 recover deferred costs. Moreover, more current customer consumption
10 information is now available. These have been reflected in revised rates for
11 Sun City and Sun City West that I am sponsoring in my testimony.

12
13 **RECOVERY OF DEFERRED CAP COSTS**

14 Q. Please explain Schedule CWD-1.

15 A. Schedule CWD-1 summarizes the amounts paid to the CAP during the
16 period 1993 through 1999 that were intended to cover Sun City and Sun
17 City West's allocated portion of the CAP's capital costs. As indicated
18 previously in the testimonies of Mr. Loy and Ms. Rossi, the amounts initially
19 were paid by Sun City in connection with its 15,835 acre-feet allocation of
20 CAP water. Portions of these allocations (9,654 and 2,372 acre-feet,
21 respectively) were assigned in 1998 to Citizens' Agua Fria Division and to
22 Sun City West. Schedule CWD-1 reflects these redistributions.

23
24 In Decision No. 58750, issued in August 1994, the Arizona Corporation
25 Commission granted the requisite accounting authority for such amounts to
26 be deferred for future regulatory consideration. Schedule CWD-1
27 summarizes the CAP payments that have been deferred between October
28 1994 and May 1999. Payments made before October 1994 were not

1 covered by the deferral accounting order, and have accordingly been
2 charged off to expense. As indicated on CWD-1, the accumulated deferred
3 amounts for which recovery is now being sought are \$861,354 and
4 \$494,866, for Sun City and Sun City West, respectively.
5

6 Q. How did you compute rates to recover deferred CAP payments?

7 A. As presented on Schedules CWD-2 and CWD-3 (updated versions of Mr.
8 Loy's Schedules CEL-1 and CEL-2), recovery of deferred CAP charges is
9 being sought over a forty-two month period on a levelized basis. For
10 residential customers, the proposed method of recovery is through a flat
11 monthly rate per household. Commercial customers will be billed on a
12 monthly usage (per 1,000 gallons) basis.
13

14 Schedules CWD-2A through CWD-2D present computations of the monthly
15 revenue requirements for the deferred amounts reflecting the existing
16 Federal and state income tax rates and the current authorized rate of
17 return (8.73%) for Sun City and Sun City West. The deferred amounts for
18 each operation were allocated to customer classes on the basis of sales
19 volumes forecasted for the year 2000. These allocations appear on
20 Schedule CWD-3.
21

22 To determine the required levelized monthly amount, the present value of
23 the forty-two monthly revenue requirements was computed using the
24 current authorized rate of return as the discount rate. Then, a monthly
25 amortization rate for that present value was computed as a simple annuity,
26 also using the current rate of return as the rate of interest. Once the
27 levelized monthly revenue requirements were determined, they were used
28 to develop the applicable customer rates on Schedule CWD-3. For rate
29

1 design purposes, the billing determinants used were the average number of
2 residential customers (households) and average monthly water
3 consumption (1,000 gallons) by commercial customers projected for the
4 year 2000. As indicated in the testimony of Mr. Loy at the end of the 42-
5 month recovery period an accounting will be performed, with any
6 recoveries in excess of the computed total revenue requirements to be
7 refunded to customers. Citizens will absorb any under-recoveries.
8

9 **RECOVERY OF ON-GOING CAP COSTS**

10 Q. How did you calculate to recover on-going CAP payments?

11 A. The on-going CAP costs include both the annual capital costs and the costs
12 of delivery. They are summarized annually for the period 2000 – 2004 on
13 Schedule CWD-4, which updates Schedule CEL-3 sponsored by Mr. Loy.
14 The amounts for which recovery is sought each year were then reduced by
15 the anticipated receipts associated with deliveries to the Maricopa Water
16 District Groundwater Savings Project.
17

18 As with the proposed recovery of deferred CAP costs, the on-going costs
19 will be recovered from residential customers through a flat monthly fee per
20 household, and from commercial customers based on usage. During the
21 first year, recovery would be based on rates reflecting the CAP holding and
22 delivery charges approved by the CAP Board and forecasted numbers of
23 households and commercial usage volumes. In subsequent years a true-up
24 to actual would be part of the annual rate determination process. This
25 process is illustrated on Mr. Loy's Schedule CEL-3.
26
27
28
29

PROPOSED RATES

Q. Please summarize the rates that Sun City and Sun City West are requesting to recover CAP costs, and the related bill impacts.

A. The proposed rates and related billing impacts are as follows:

Monthly Rates to Recover Deferred CAP Costs:

Sun City Water

Residential, per Household \$0.5502

Commercial, Public Authority,
and Irrigation per 1,000 gallons \$0.0542

Sun City West

Residential per Household \$0.5970

Commercial per 1,000 gallons \$0.0709

Monthly Rates to Recover Annual CAP On-going Costs:

Sun City Water

Residential, per Household \$0.8016

Commercial, Public Authority,
and Irrigation per 1,000 gallons \$0.0790

Sun City West

Residential, per Household \$0.8666

Commercial per 1,000 gallons \$0.1029

Total Monthly Groundwater Savings Fee:

Sun City Water

Residential, per Household \$1.35

Commercial, Public Authority
and Irrigation (est. 63,000 gallons) \$8.39

Sun City West

Residential, per Household	\$1.46
Commercial (est. 63,000 gallons)	\$10.95

REBUTTAL TESTIMONY

Q. Do any of the other parties to this proceeding challenge Citizens' proposed methodology to recover its CAP costs?

A. Yes, several of the parties filed testimony in which they dispute the manner by which Sun City and Sun City West would recover their deferred and on-going CAP costs. The Residential Utility Consumer Office ("RUCO") witness (Ms. Cortez) opines that customers whose usage exceeds GPCD limits should pay the incremental cost of CAP water, and recommends that CAP costs be recovered in the form of a surcharge to customers exceeding certain monthly consumption levels. The Sun City Taxpayers Association ("SCTA") witness (Ms. Charlesworth) recommends that, if they are deemed recoverable, CAP costs should be collected primarily from customers entering the system, with any charge to existing customers based on water used. The Arizona Corporation Commission Staff witness (Mr. Fernandez) testifies that he agrees with the Company's proposed rate design methodology, but believes the recovery should be over a period of five years because the deferred charges accumulated over a period of five years.

Q. Do you agree with such assertions?

A. There are conceptual responses that I could and would typically make, such as the fact that both Sun City and Sun City West already have increasing block rates that tend to create an economic incentive for customers to conserve, and that there is no historical linkage or precedent between the

1 time period during which capital costs are accumulated and their prescribed
2 recovery period. However, I believe that the most important justification
3 for Citizens' proposed rate design is that it was desired by the members of
4 the CAP Task Force, whose final report is the underlying basis for our cost
5 recovery proposal. The Report is clear that CAP costs should be recovered
6 by a flat monthly charge per household instead of a consumption-based
7 billing approach. This is clearly shown on page 14 of the Report:

8 ...the Task Force was concerned about how the costs would
9 ultimately be distributed across the customer base. The
10 Task Force was concerned that the costs for using CAP
11 water should be assessed on a per household basis and not
12 on consumption. CAP water should be considered as the
13 first water supply delivered to customers, roughly the first
14 3,500 gallons, instead of making CAP water a portion of
15 every gallon delivered. If the CAP water is assessed based
16 on consumption, then the large water users will unfairly
17 subsidize small water users even though on a per
18 household basis the demand is comparable.

19 The Task Force Report reiterates this preference again on page 32:

20 Regarding the issue of distributing the costs across the
21 customer base, the Task Force recommended that
22 commercial customers be billed on consumption and that
23 residential customers be billed on a per household basis.
24 By billing residential customers on a per household basis,
25 the individual condominium customer will pay the same
26 amount for CAP water as an individual single family
27 residential customer.

28 Q. Does the Task Force Report identify a preferred recovery period?

29 A. The Task Force expected that the recovery period would coincide with the
construction period for the new golf course pipeline, estimated to be 42
months. The Report states at page v of the Executive Summary:

1 This cost would be incurred from January of 1999 until the
2 groundwater savings project would be constructed in 2002.
3 At that time, the deferral would discontinue and the costs
associated with the ultimate solution would begin.

4 Despite the passage of time since the issuance of the Task Force Report
5 and Citizens' application in this Docket, the recommended cost recovery
6 period and estimated construction period remain unchanged. Our proposed
7 rates have been designed accordingly.

8
9 Q. Why should the Commission respect the Task Force's conclusions?

10 A. The Task Force reached these conclusions after the lengthy public process
11 described in the Report. Both the flat monthly fee per household and the
12 42-month recovery period reflect the wishes of the Task Force.

13
14 Q. Do any of the other parties to this proceeding recommend denial of any of
15 the costs for which recovery is being sought?

16 A. Yes, both the RUCO and Staff witnesses recommend that prospective
17 carrying charges (rates of return on the deferred CAP costs) be excluded
18 from recovery. In addition, the RUCO witness recommends exclusion of
19 certain late payment charges as well. SCTA witness, Ms. Charlesworth,
20 challenges the full recovery of deferred CAP costs and any recovery of
21 accrued carrying charges.

22
23 Q. Do you agree with such recommendations?

24 A. I do agree that late payment penalties should not be recoverable, and have
25 excluded them from my cost analysis. I strongly disagree with the
26 recommendations that cost recovery be denied or that prospective carrying
27 charges be excluded from amounts chargeable to customers.

1 Q. Why should deferred CAP costs, as well as capital costs and delivery
2 charges that will commence once the CAP water begins to be used, be
3 recoverable?

4 A. In Decision No. 60172, the Arizona Corporation Commission clearly found
5 the Company's decision to obtain CAP water constituted prudent planning.
6 The only remaining obstacle for cost recovery was meeting the "used and
7 useful" test that had been imposed. With our commitment to the plan
8 developed by the CAP Task Force that test has now been satisfied.
9 Recovery is appropriate.

10
11 Q. Why should carrying charges be allowed?

12 A. There are several compelling reasons. First, the Commission has imposed
13 upon the Citizens the same test that is typically applied to justify cost
14 recovery for plant assets. The costs of such investments are not
15 recoverable until they are used and useful in the provision of utility service.
16 However, during the interim period between the expenditure of funds and
17 the ultimate date upon which the used and useful test is met, such
18 investments are afforded a return. This occurs in the form of the Allowance
19 for Funds During Construction ("AFDC"). AFDC, in amounts equivalent to
20 current returns, both debt and equity, is capitalized and deferred as part of
21 the book cost of the respective asset and recovered in future rates as part
22 of depreciation expense. Previously accrued AFDC included in plant-in-
23 service balances not yet recovered in depreciation provisions will continue
24 to earn a current rate of return through its inclusion in rate base. In this
25 instance, neither Sun City nor Sun City West has accrued any carrying
26 charges (AFDC or otherwise) on the deferred CAP costs. Since the same
27 ratemaking standard that applies to plant assets has been imposed upon
28 our deferred CAP costs, it is only appropriate that the same cost recovery
29

1 opportunity, including a return on the unrecovered balance, be made
2 available as well. We are not seeking the retroactive accrual of carrying
3 charges. We merely request that the prospectively accrued carrying costs
4 associated with the significant expenditure of funds that the Commission
5 has found to be prudent be recoverable from the customers they were
6 intended to benefit.

7
8 Second, similar circumstances should be treated in a consistent manner for
9 cost recovery and ratemaking purposes. In Decision No. 58360 issued in
10 July 1993, the Commission ordered that carrying charges, computed at the
11 cost of capital, can be accrued on the balances of DSM expenditures made
12 by Citizens' Arizona Electric Division. Such expenditures are critical to the
13 planning process that is intended to assure that Citizens will be able to
14 continue to supply sufficient quantities of electricity to its customers in the
15 future. The decision to acquire CAP water, already found by the
16 Commission to have been prudent, was also intended to assure a long-term
17 supply, in this case of water. For the same reason that carrying charges
18 may be accrued on DSM expenditures, Sun City and Sun City West should
19 be allowed to reflect a rate of return in the revenue requirement
20 calculations that underlie our requested CAP cost recovery rates.

21
22 Finally, setting aside ratemaking principles and regulatory policies for a
23 moment, reasonableness and fairness warrant some consideration in the
24 prospective recognition of a return on the unamortized balance of deferred
25 CAP costs. As indicated on Schedule CWD-1, payments totaling \$160,706
26 (\$99,034 for Sun City and \$61,672 for Sun City West) were made in
27 connection with the CAP allocation before we received deferral accounting
28 authority in Commission Decision No. 58750 in August 1994. Even though
29

1 the decision to acquire CAP water was subsequently found by the
2 Commission to have been prudent, because these payments preceded the
3 deferral accounting order, they were charged to expense and will never be
4 recoverable. Moreover, as summarized on Schedule CWD-5, by not having
5 the authority to accrue carrying charges on the deferred CAP costs, Sun
6 City and Sun City West have forgone recognition of returns totaling
7 \$140,922 and \$83,361, respectively. In the aggregate, unrecoverable CAP
8 payments and forgone returns total \$384,989, while at the same time
9 Citizens' investors have borne the entire risk associated with CAP water
10 procurement. The total of the returns implicit in the revenue requirement
11 underlying the requested CAP recovery rates is \$108,257, less than one-
12 third of the unrecoverable payments and forgone returns. To deny any
13 consideration of returns prospectively is not only patently unfair, but also
14 would continue to require Citizens' investors to bear the entire cost of
15 acquiring CAP water and holding it for the benefit of customers.

16
17 Q. Does this conclude your testimony?

18 A. Yes it does.
19
20
21
22
23
24
25
26
27
28
29

PROFESSIONAL QUALIFICATIONS

Q. What is your educational background?

A. I graduated from the University of Nebraska with a Bachelor of Science Degree in Business Administration, major in Accounting. I also received a Master of Business Administration Degree, concentration in Finance from Rockhurst College in Kansas City, Missouri.

Q. What has been your professional experience?

A. Upon graduation from college in 1968, I was employed by the international public accounting firm Arthur Andersen & Co. in its Omaha office. During such employment, I participated in and directed audits and other engagements involving commercial banks, healthcare facilities, public utilities, insurance carriers, and other clients.

In 1971, I accepted a position reporting to the controller at Central Telephone & Utilities Corporation at its then headquarters in Lincoln, Nebraska. During the five years I was employed by CTU, I directed such activities as financial and regulatory accounting and reporting, internal auditing, budgeting, corporate acquisitions and divestitures, rate cases, and other regulatory filings, banking relations, and corporate financings.

From 1976 to 1981, I was employed by Kansas City Power & Light Company. My responsibilities included the corporate audit function, operations budgeting, and rate case filings in Kansas and Missouri and with the Federal Energy Regulatory Commission. During that period, I also served as a member of the Missouri Valley Electric Association, and the Finance and Accounting Committee of the Standardized Nuclear Unit Power Plant System.

1 From 1981 to 1991, I was employed as a Senior Project Manager for a
2 regulatory consulting firm and successor firm, directing rate case,
3 management audit, and other engagements for a clientele that included
4 utility companies, public service commissions, and intervenors in regulatory
5 proceedings.

6
7 From 1991 through 1996, I was employed as an internal consultant with
8 Northern States Power Company in Minneapolis. My responsibilities
9 included accounting, taxation and cost allocation issues in rate cases and
10 special regulatory proceedings, performing capital investment evaluations,
11 accounting and tax research, developing cost recovery plans, and advising
12 senior management in connection with the development of performance-
13 based ratemaking proposals and strategic policies for a successful transition
14 to a competitive electric utility industry.

15
16 In late 1996, I accepted a position as Tax Research Coordinator for Tucson
17 Electric Power Company. My chief responsibilities included tax research and
18 planning, preparation and review of corporate tax returns, and meeting
19 with representatives of tax authorities. I also served on the corporate
20 planning team addressing industry deregulation and competitive issues, and
21 also directed the team charged with responsibility for creating and
22 implementing a system for strategic business units, and developing the
23 associated accounting and financial reporting practices.

24
25 In January, 1997, I was appointed Director of Utilities for the Arizona
26 Corporation Commission. In that capacity, I directed a staff of
27 approximately ninety professional and clerical employees responsible for
28
29

1 overseeing railroad and pipeline safety in Arizona and for regulating the
2 water, telephone, electric and natural gas distribution utilities in the State.

3
4 I accepted my current position as Vice President-Regulatory Affairs of the
5 Public Service Sector of Citizens Utilities in February 1998. In that
6 capacity, I coordinate regulatory activities in the ten states served by
7 Sector utilities. In addition, I am a member of the Arizona Utility Tax
8 Issues Group and the Arizona Corporation Commission's Water Utility Task
9 Force.

10
11 Q. What are your professional certifications and affiliations?

12 A. I hold Certified Public Accountant Certificates issued by the respective
13 Boards of Accountancy in Nebraska and Kansas. I am a member of the
14 American Institute of Certified Public Accountants, the National Association
15 of Radio and Telecommunications Engineers ("NARTE"), and the National
16 Association of Railroad and Public Utility Tax Representatives.

17
18 Q. What technical licenses do you hold?

19 A. I hold an Advanced Class FCC Radio License and a Technician Class NARTE
20 certification with regulatory and antennas endorsements.

21
22 Q. What is your teaching experience?

23 A. I have developed and conducted seminars on a variety of topics for
24 employees of public utilities and regulatory agencies. I have also taught
25 classes on behalf of the U.S. Telephone Association. Presently, I am a
26 member of the faculty of the NARUC Regulatory Studies Program at the
27 Public Utility Institute at Michigan State University. In connection with my
28
29

1 teaching, I have written three instructional books: *Public Utility Income*
2 *Taxation and Ratemaking*, *Public Utility Working Capital*, and *Generally*
3 *Accepted Accounting Principles for Utilities*.
4

5 Q. What has been your experience in regulatory proceedings?

6 A. During the past twenty-eight years, I have participated in numerous rate
7 cases and other regulatory and litigation proceedings involving electric, gas
8 transmission and distribution, telephone, water, and wastewater utilities
9 conducted in Alaska, Arizona, California, Colorado, Connecticut, District of
10 Columbia, Florida, Illinois, Indiana, Kansas, Maryland, Minnesota, Missouri,
11 Nevada, New Mexico, North Carolina, North Dakota, South Dakota, Virginia,
12 and Wisconsin, as well as proceedings before the Federal Energy Regulatory
13 Commission and the National Energy Board of Canada. I have also spoken
14 before legislative bodies in connection with proposed legislation. I have
15 testified on matters involving financial and regulatory accounting and
16 reporting, auditing, cost allocation, financial forecasting, capital and
17 operations budgeting, taxation, corporate acquisitions, holding companies,
18 valuation and transfer pricing, deregulation, the cost of capital, industry
19 restructuring, and regulatory policy.
20
21
22
23
24
25
26
27
28
29

Sun City - Sun City West
C.A.P. Payments
1993 - 1999

<u>Date</u> <u>Paid</u>	<u>Amount</u> <u>Paid By</u> <u>Sun City Water</u>	<u>Allocated</u> <u>to</u> <u>Agua Fria (a)</u>	<u>Allocated</u> <u>to</u> <u>Sun City West (b)</u>	<u>Remainder</u> <u>for</u> <u>Sun City Water</u>
Payments Not Deferred:				
July 1, 1993	\$ 79,175	\$ 48,270	\$ 11,860	\$ 19,045
Oct. 20, 1993	71,257	43,443	10,674	17,140
April 20, 1994	95,010	57,924	14,232	22,854
Oct. 20, 1994	166,267	101,367	24,906	39,994
Payments for which Recovery is unavailable			<u>\$ 61,672</u>	<u>\$ 99,034</u>
Payments Deferred:				
Oct. 31, 1994	112,874	68,815	\$ 16,908	\$ 27,151
May 26, 1995	166,268	101,367	24,906	39,995
Nov. 30, 1995	237,525	144,810	35,580	57,135
May 31, 1996	237,525	144,810	35,580	57,135
Nov. 1, 1996	308,783	188,253	46,254	74,276
April 25, 1997	308,782	188,253	46,254	74,275
Dec. 31, 1997	39,330 (c)			39,330
Dec. 31, 1997	380,040	231,696	56,928	91,416
May 29, 1998	380,040	231,696	56,928	91,416
Aug. 1, 1998	9,120 (c)			9,120
Sun City/Sun City West subtotals after allocation			<u>\$ 319,339</u>	<u>\$ 561,248</u>
Additional Payments:				
Dec. 31, 1998			56,928	100,536
May 28, 1999			56,928	100,536
Total Deferral for which Recovery is being sought			<u>\$ 433,195</u>	<u>\$ 762,320</u>
Total Payments			<u>\$ 494,866</u>	<u>\$ 861,354</u>

(a) Allocated on basis of acre feet transferred:

$$9,654 / 15,835 = .609662$$

(b) Allocated on basis of acre feet transferred:

$$2,372 / 15,835 = .149795$$

(c) Represents Youngstown - All Sun City Water

Sun City Water
CAP Deferral Cost Recovery
Monthly Revenue Requirements - Residential

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
Deferred CAP Costs	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364
Less: Accumulated Amortization	(14,247)	(28,494)	(42,741)	(56,988)	(71,235)	(85,482)	(99,729)	(113,976)	(128,223)	(142,470)
Net Deferred CAP Costs	584,117	569,870	555,623	541,376	527,129	512,882	498,635	484,388	470,141	455,894
Less: A.D.I.T.	(229,441)	(223,845)	(218,249)	(212,652)	(207,056)	(201,460)	(195,864)	(190,268)	(184,671)	(179,075)
Net Investment	354,676	346,025	337,374	328,724	320,073	311,422	302,771	294,120	285,470	276,819

Return on Net Investment (a):

L-T Debt (.2550%)	904	882	860	838	816	794	772	750	728	706
Preferred Equity (.0258%)	92	89	87	85	83	80	78	76	74	71
Common Equity (.4467%)	1,584	1,546	1,507	1,468	1,430	1,391	1,352	1,314	1,275	1,237
Total	2,580	2,517	2,454	2,391	2,329	2,266	2,203	2,140	2,077	2,014

Amortization Expense

	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247
--	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

Income Taxes on Equity Returns

	1,084	1,058	1,031	1,005	978	952	925	899	873	846
--	-------	-------	-------	-------	-----	-----	-----	-----	-----	-----

Revenue Requirement

	17,911	17,822	17,733	17,643	17,554	17,464	17,375	17,286	17,196	17,107
--	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

P.V. Factor at .7275% (a)

	0.992778	0.985608	0.9784892	0.971422	0.964406	0.957441	0.950526	0.94366	0.936845	0.930079
--	----------	----------	-----------	----------	----------	----------	----------	---------	----------	----------

P.V. of Revenue Requirements

	17,782	17,566	17,351	17,139	16,929	16,721	16,515	16,312	16,110	15,911
--	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

Total Present Value of Revenue Requirements

583,524

Levelized Monthly Payment

16,174

(a) Monthly equivalent of 8.73% annual rate of return.

Month	11	12	13	14	15	16	17	18	19	20	21	22	23
598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364
(156,717)	(170,964)	(185,211)	(199,458)	(213,705)	(227,952)	(242,199)	(256,446)	(270,693)	(284,940)	(299,187)	(313,434)	(327,681)	(341,928)
441,647	427,400	413,153	398,906	384,659	370,412	356,165	341,918	327,671	313,424	299,177	284,930	270,683	256,436
(173,479)	(167,883)	(162,286)	(156,690)	(151,094)	(145,498)	(139,902)	(134,305)	(128,709)	(123,113)	(117,517)	(111,921)	(106,324)	(100,728)
268,168	259,517	250,867	242,216	233,565	224,914	216,263	207,613	198,962	190,311	181,660	173,009	164,359	155,708
684	662	640	618	596	574	551	529	507	485	463	441	419	397
69	67	65	62	60	58	56	54	51	49	47	45	42	40
1,198	1,159	1,121	1,082	1,043	1,005	966	927	889	850	811	773	734	695
1,951	1,888	1,825	1,762	1,699	1,636	1,573	1,510	1,447	1,385	1,322	1,259	1,196	1,133
14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247
820	793	767	740	714	687	661	635	608	582	555	529	502	476
17,018	16,928	16,839	16,749	16,660	16,571	16,481	16,392	16,303	16,213	16,124	16,034	15,945	15,855
0.923361	0.916692	0.910071	0.903498	0.896973	0.890495	0.884063	0.877678	0.871339	0.865046	0.858798	0.852595	0.846438	0.840285
15,713	15,518	15,325	15,133	14,944	14,756	14,571	14,387	14,205	14,025	13,847	13,671	13,497	13,322

Month	24	25	26	27	28	29	30	31	32	33	34	35	36
598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364	598,364
(341,928)	(356,175)	(370,422)	(384,669)	(398,916)	(413,163)	(427,410)	(441,657)	(455,904)	(470,150)	(484,396)	(498,642)	(512,888)	(527,135)
256,436	242,189	227,942	213,695	199,448	185,201	170,954	156,707	142,460	128,214	113,968	99,722	85,476	71,229
(100,728)	(95,132)	(89,536)	(83,939)	(78,343)	(72,747)	(67,151)	(61,555)	(55,958)	(50,362)	(44,767)	(39,171)	(33,575)	(27,979)
155,708	147,057	138,406	129,756	121,105	112,454	103,803	95,152	86,502	77,852	69,201	60,551	51,901	43,250
397	375	353	331	309	287	265	243	221	199	176	154	132	110
40	38	36	33	31	29	27	25	22	20	18	16	13	11
696	657	618	580	541	502	464	425	386	348	309	270	232	193
1,133	1,070	1,007	944	881	818	755	692	629	566	503	441	378	315
14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,247	14,246	14,246	14,246	14,246
476	449	423	397	370	344	317	291	264	238	212	185	159	132
15,856	15,766	15,677	15,588	15,498	15,409	15,319	15,230	15,141	15,050	14,961	14,872	14,782	14,693
0.840324	0.834255	0.82823	0.822248	0.816309	0.810413	0.80456	0.798749	0.79298	0.787253	0.781567	0.775922	0.770318	0.764714
13,324	13,153	12,984	12,817	12,651	12,488	12,325	12,165	12,006	11,848	11,693	11,539	11,387	11,234

Month	Month	Month	Month	Month	Month
37	38	39	40	41	42
598,364	598,364	598,364	598,364	598,364	598,364
(527,134)	(541,380)	(555,626)	(569,872)	(584,118)	(598,364)
71,230	56,984	42,738	28,492	14,246	-
(27,979)	(22,383)	(16,787)	(11,192)	(5,596)	-
43,251	34,601	25,951	17,300	8,650	-
110	88	66	44	22	-
11	9	7	4	2	-
193	155	116	77	39	-
315	252	189	126	63	-
14,246	14,246	14,246	14,246	14,246	14,246
132	106	79	53	26	-
14,693	14,603	14,514	14,425	14,335	14,246
0.764755	0.759231	0.753748	0.748304	0.742899	0.737534
11,236	11,087	10,940	10,794	10,650	10,507

Sun City Water
CAP Deferral Cost Recovery
Monthly Revenue Requirements - Other

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
Deferred CAP Costs	163,956	163,956	163,956	163,956	163,956	163,956	163,956	163,956	163,956	163,956
Less: Accumulated Amortization	(3,904)	(7,808)	(11,712)	(15,616)	(19,520)	(23,424)	(27,328)	(31,232)	(35,136)	(39,040)
Net Deferred CAP Costs	160,052	156,148	152,244	148,340	144,436	140,532	136,628	132,724	128,820	124,916
Less: A.D.I.T.	(62,868)	(61,335)	(59,801)	(58,268)	(56,734)	(55,201)	(53,667)	(52,134)	(50,600)	(49,067)
Net Investment	97,184	94,813	92,443	90,072	87,702	85,331	82,961	80,590	78,220	75,849

Return on Net Investment (a):

L-T Debt (.2550%)	248	242	236	230	224	218	212	206	199	193
Preferred Equity (.0258%)	25	24	24	23	23	22	21	21	20	20
Common Equity (.4467%)	434	424	413	402	392	381	371	360	349	339
Total	707	690	673	655	638	621	604	586	569	552

Amortization Expense

	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

Income Taxes on Equity Returns

	297	290	283	275	268	261	254	246	239	232
--	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

Revenue Requirement

	4,908	4,884	4,859	4,835	4,810	4,786	4,761	4,737	4,712	4,688
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

P.V. Factor at .7275% (a)

	0.992778	0.985608	0.978489	0.971422	0.964406	0.957441	0.950526	0.94366	0.936845	0.930079
--	----------	----------	----------	----------	----------	----------	----------	---------	----------	----------

P.V. of Revenue Requirements

	4,873	4,813	4,755	4,696	4,639	4,582	4,526	4,470	4,415	4,360
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

Total Present Value of Revenue Requirements

159,890

Levelized Monthly Payment

4,432

(a) Monthly equivalent of 8.73% annual rate of return.

Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month
11	12	13	14	15	16	17	18	19	20	21	22	23
163,956 (42,944)	163,956 (46,848)	163,956 (50,752)	163,956 (54,656)	163,956 (58,560)	163,956 (62,464)	163,956 (66,368)	163,956 (70,272)	163,956 (74,176)	163,956 (78,080)	163,956 (81,984)	163,956 (85,888)	163,956 (89,792)
121,012 (47,534)	117,108 (46,000)	113,204 (44,467)	109,300 (42,933)	105,396 (41,400)	101,492 (39,866)	97,588 (38,333)	93,684 (36,799)	89,780 (35,266)	85,876 (33,732)	81,972 (32,199)	78,068 (30,665)	74,164 (29,132)
73,478	71,108	68,737	66,367	63,996	61,626	59,255	56,885	54,514	52,144	49,773	47,403	45,032
187	181	175	169	163	157	151	145	139	133	127	121	115
19	18	18	17	17	16	15	15	14	13	13	12	12
328	318	307	296	286	275	265	254	244	233	222	212	201
535	517	500	483	466	448	431	414	397	379	362	345	328
3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,904
225	217	210	203	196	188	181	174	167	159	152	145	138
4,663	4,639	4,614	4,590	4,565	4,541	4,516	4,492	4,467	4,443	4,418	4,394	4,369
0.923361	0.916692	0.910071	0.903498	0.896973	0.890495	0.884063	0.877678	0.871339	0.865046	0.858798	0.852595	0.846438
4,306	4,252	4,199	4,147	4,095	4,043	3,993	3,942	3,892	3,843	3,794	3,746	3,698

Month 24	Month 25	Month 26	Month 27	Month 28	Month 29	Month 30	Month 31	Month 32	Month 33	Month 34	Month 35	Month 36
163,956 (93,696)	163,956 (97,600)	163,956 (101,504)	163,956 (105,408)	163,956 (109,312)	163,956 (113,216)	163,956 (117,120)	163,956 (121,023)	163,956 (124,926)	163,956 (128,829)	163,956 (132,732)	163,956 (136,635)	163,956 (140,538)
70,260 (27,598)	66,356 (26,065)	62,452 (24,531)	58,548 (22,998)	54,644 (21,464)	50,740 (19,931)	46,836 (18,397)	42,933 (16,864)	39,030 (15,331)	35,127 (13,798)	31,224 (12,265)	27,321 (10,732)	23,418 (9,199)
42,662	40,291	37,921	35,550	33,180	30,809	28,439	26,069	23,699	21,329	18,959	16,589	14,219
109	103	97	91	85	79	73	66	60	54	48	42	36
11	10	10	9	9	8	7	7	6	6	5	4	4
191	180	169	159	148	138	127	116	106	95	85	74	64
310	293	276	259	241	224	207	190	172	155	138	121	103
3,904	3,904	3,904	3,904	3,904	3,904	3,904	3,903	3,903	3,903	3,903	3,903	3,903
130	123	116	109	101	94	87	80	72	65	58	51	43
4,345	4,320	4,296	4,271	4,247	4,222	4,198	4,172	4,148	4,123	4,099	4,074	4,050
0.840324	0.834255	0.82823	0.822248	0.816309	0.810413	0.80456	0.798749	0.79298	0.787253	0.781567	0.775922	0.770318
3,651	3,604	3,558	3,512	3,467	3,422	3,377	3,333	3,289	3,246	3,204	3,161	3,120

Month	Month	Month	Month	Month	Month	Month
37	38	39	40	41	42	
163,956	163,956	163,956	163,956	163,956	163,956	163,956
(144,441)	(148,344)	(152,247)	(156,150)	(160,053)	(163,956)	(163,956)
19,515	15,612	11,709	7,806	3,903	-	-
(7,665)	(6,132)	(4,599)	(3,066)	(1,533)	-	-
11,850	9,480	7,110	4,740	2,370	-	-

30	24	18	12	6	-	-
3	2	2	1	1	-	-
53	42	32	21	11	-	-
86	69	52	34	17	-	-

3,903	3,903	3,903	3,903	3,903	3,903	3,903
36	29	22	14	7	-	-

4,025	4,001	3,976	3,952	3,927	3,903	3,903
-------	-------	-------	-------	-------	-------	-------

0.764755	0.759231	0.753748	0.748304	0.742899	0.737534	0.737534
----------	----------	----------	----------	----------	----------	----------

3,078	3,038	2,997	2,957	2,918	2,879	2,879
-------	-------	-------	-------	-------	-------	-------

Sun City West
CAP Deferral Cost Recovery
Monthly Revenue Requirements - Residential

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
Deferred CAP Costs	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177
Less: Accumulated Amortization	(8,838)	(17,676)	(26,514)	(35,352)	(44,190)	(53,028)	(61,866)	(70,704)	(79,542)	(88,380)
Net Deferred CAP Costs	362,339	353,501	344,663	335,825	326,987	318,149	309,311	300,473	291,635	282,797
Less: A.D.I.T.	(142,327)	(138,855)	(135,384)	(131,912)	(128,440)	(124,969)	(121,497)	(118,026)	(114,554)	(111,083)
Net Investment	220,012	214,646	209,279	203,913	198,547	193,180	187,814	182,447	177,081	171,714

Return on Net Investment (a):

L-T Debt (.2550%)	561	547	534	520	506	493	479	465	452	438
Preferred Equity (.0258%)	57	55	54	53	51	50	48	47	46	44
Common Equity (.4467%)	983	959	935	911	887	863	839	815	791	767
Total	1,601	1,562	1,523	1,483	1,444	1,405	1,366	1,327	1,288	1,249

Amortization Expense

	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

Income Taxes on Equity Returns

	672	656	640	623	607	590	574	558	541	525
--	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

Revenue Requirement

	11,111	11,056	11,000	10,945	10,889	10,834	10,778	10,723	10,668	10,612
--	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

P.V. Factor at .7275% (a)

	0.992778	0.985608	0.9784892	0.971422	0.964406	0.957441	0.950526	0.94366	0.936845	0.930079
--	----------	----------	-----------	----------	----------	----------	----------	---------	----------	----------

P.V. of Revenue Requirements

	11,031	10,897	10,764	10,632	10,502	10,373	10,245	10,119	9,994	9,870
--	--------	--------	--------	--------	--------	--------	--------	--------	-------	-------

Total Present Value of Revenue Requirements

361,971

Levelized Monthly Payment

10,033

(a) Monthly equivalent of 8.73% annual rate of return.

Month	11	12	13	14	15	16	17	18	19	20	21	22	23
371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177	371,177
(97,218)	(106,056)	(114,894)	(123,732)	(132,570)	(141,408)	(150,246)	(159,084)	(167,922)	(176,760)	(185,598)	(194,436)	(203,274)	(212,112)
273,959	265,121	256,283	247,445	238,607	229,769	220,931	212,093	203,255	194,417	185,579	176,741	167,903	159,065
(107,611)	(104,140)	(100,668)	(97,196)	(93,725)	(90,253)	(86,782)	(83,310)	(79,839)	(76,367)	(72,895)	(69,424)	(65,952)	(62,480)
166,348	160,981	155,615	150,249	144,882	139,516	134,149	128,783	123,416	118,050	112,684	107,317	101,951	96,585
424	411	397	383	369	356	342	328	315	301	287	274	260	247
43	42	40	39	37	36	35	33	32	30	29	28	26	25
743	719	695	671	647	623	599	575	551	527	503	479	455	431
1,210	1,171	1,132	1,093	1,054	1,015	976	937	898	859	820	781	742	703
8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838	8,838
508	492	476	459	443	426	410	394	377	361	344	328	312	296
10,557	10,501	10,446	10,390	10,335	10,279	10,224	10,169	10,113	10,058	10,002	9,947	9,891	9,836
0.923361	0.916692	0.910071	0.903498	0.896973	0.890495	0.884063	0.877678	0.871339	0.865046	0.858798	0.852595	0.846438	0.840285
9,748	9,626	9,506	9,388	9,270	9,154	9,039	8,925	8,812	8,700	8,590	8,481	8,372	8,263

Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month
24	25	26	27	28	29	30	31	32	33	34	35	36
371,177 (212,111)	371,177 (220,948)	371,177 (229,785)	371,177 (238,622)	371,177 (247,459)	371,177 (256,296)	371,177 (265,133)	371,177 (273,970)	371,177 (282,807)	371,177 (291,644)	371,177 (300,481)	371,177 (309,318)	371,177 (318,155)
159,066 (62,481)	150,229 (59,010)	141,392 (55,539)	132,555 (52,068)	123,718 (48,596)	114,881 (45,125)	106,044 (41,654)	97,207 (38,183)	88,370 (34,712)	79,533 (31,241)	70,696 (27,769)	61,859 (24,298)	53,022 (20,827)
96,585	91,219	85,853	80,487	75,122	69,756	64,390	59,024	53,658	48,292	42,927	37,561	32,195
246	233	219	205	192	178	164	151	137	123	109	96	82
25	24	22	21	19	18	17	15	14	12	11	10	8
431	407	384	360	336	312	288	264	240	216	192	168	144
703	664	625	586	547	507	468	429	390	351	312	273	234
8,837	8,837	8,837	8,837	8,837	8,837	8,837	8,837	8,837	8,837	8,837	8,837	8,837
295	279	262	246	230	213	197	180	164	148	131	115	98
9,835	9,779	9,724	9,669	9,613	9,558	9,502	9,447	9,391	9,336	9,281	9,225	9,170
0.840324	0.834255	0.82823	0.822248	0.816309	0.810413	0.80456	0.798749	0.79298	0.787253	0.781567	0.775922	0.770318
8,264	8,159	8,054	7,950	7,847	7,746	7,645	7,546	7,447	7,350	7,253	7,158	7,064

Month 37	Month 38	Month 39	Month 40	Month 41	Month 42
371,177	371,177	371,177	371,177	371,177	371,177
(326,992)	(335,829)	(344,666)	(353,503)	(362,340)	(371,177)
44,185	35,348	26,511	17,674	8,837	-
(17,356)	(13,885)	(10,414)	(6,942)	(3,471)	-
26,829	21,463	16,097	10,732	5,366	-
68	55	41	27	14	-
7	6	4	3	1	-
120	96	72	48	24	-
195	156	117	78	39	-
8,837	8,837	8,837	8,837	8,837	8,837
82	66	49	33	16	-
9,114	9,059	9,003	8,948	8,892	8,837
0.764755	0.759231	0.753748	0.748304	0.742899	0.737534
6,970	6,878	6,786	6,696	6,606	6,518

Sun City West
CAP Deferral Cost Recovery
Monthly Revenue Requirements - Other

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10
Deferred CAP Costs	62,018	62,018	62,018	62,018	62,018	62,018	62,018	62,018	62,018	62,018
Less: Accumulated Amortization	(1,477)	(2,954)	(4,431)	(5,908)	(7,385)	(8,862)	(10,339)	(11,816)	(13,293)	(14,770)
Net Deferred CAP Costs	60,541	59,064	57,587	56,110	54,633	53,156	51,679	50,202	48,725	47,248
Less: A.D.I.T.	(23,781)	(23,200)	(22,620)	(22,040)	(21,460)	(20,880)	(20,300)	(19,719)	(19,139)	(18,559)
Net Investment	36,760	35,864	34,967	34,070	33,173	32,276	31,379	30,483	29,586	28,689

Return on Net Investment (a):

L-T Debt (.2550%)	94	91	89	87	85	82	80	78	75	73
Preferred Equity (.0258%)	9	9	9	9	9	8	8	8	8	7
Common Equity (.4467%)	164	160	156	152	148	144	140	136	132	128
Total	267	261	254	248	241	235	228	222	215	209

Amortization Expense

	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477	1,477
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

Income Taxes on Equity Returns

	112	110	107	104	101	99	96	93	90	88
--	-----	-----	-----	-----	-----	----	----	----	----	----

Revenue Requirement

	1,857	1,848	1,838	1,829	1,820	1,810	1,801	1,792	1,783	1,773
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

P.V. Factor at .7275% (a)

	0.992778	0.985608	0.978489	0.971422	0.964406	0.957441	0.950526	0.94366	0.936845	0.930079
--	----------	----------	----------	----------	----------	----------	----------	---------	----------	----------

P.V. of Revenue Requirements

	1,843	1,821	1,799	1,777	1,755	1,733	1,712	1,691	1,670	1,649
--	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

Total Present Value of Revenue Requirements

60,480

Levelized Monthly Payment

1,676

(a) Monthly equivalent of 8.73% annual rate of return.

0.923361	0.916692	0.910071	0.903498	0.896973	0.890495	0.884063	0.877678	0.871339	0.865046	0.858798	0.852595	0.846438
----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------

0.840324	0.834255	0.82823	0.822248	0.816309	0.810413	0.80456	0.798749	0.79298	0.787253	0.781567	0.775922	0.770318
----------	----------	---------	----------	----------	----------	---------	----------	---------	----------	----------	----------	----------

1,381	1,364	1,346	1,328	1,311	1,294	1,277	1,260	1,244	1,228	1,211	1,196	1,180
-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------

Month 37	Month 38	Month 39	Month 40	Month 41	Month 42
62,018	62,018	62,018	62,018	62,018	62,018
(54,638)	(56,114)	(57,590)	(59,066)	(60,542)	(62,018)
7,380	5,904	4,428	2,952	1,476	-
(2,899)	(2,319)	(1,739)	(1,160)	(580)	-
4,481	3,585	2,689	1,792	896	-
11	9	7	5	2	-
1	1	1	0	0	-
20	16	12	8	4	-
33	26	20	13	7	-
1,476	1,476	1,476	1,476	1,476	1,476
14	11	8	5	3	-
1,522	1,513	1,504	1,495	1,485	1,476
0.764755	0.759231	0.753748	0.748304	0.742899	0.737534
1,164	1,149	1,133	1,118	1,103	1,089

Calculation of Deferral Allocations and Collection Rate

	Volumes (1,000 gal.) Forecasted For Yr. 2000	% of Total	Allocation of Deferral Balance	Monthly Revenue Requirement	Billing Determinants	Customer Rate (c)
<u>Sun City Water</u>						
Residential	3,578,801	78.49	\$ 598,364	\$ 16,174	29,397 (a)	\$ 0.5502
Commercial, Irrigation and OPA	<u>980,614</u>	<u>21.51</u>	<u>163,956</u>	4,432	81,718 (b)	\$ 0.0542
Total	<u>4,559,415</u>	<u>100.00</u>	<u>\$ 762,320</u>			
<u>Sun City West</u>						
Residential	1,698,495	85.68	\$ 371,177	\$ 10,033	16,806 (a)	\$ 0.5970
Commercial	<u>283,791</u>	<u>14.32</u>	<u>62,018</u>	1,676	23,649 (b)	\$ 0.0709
Total	<u>1,982,286</u>	<u>100.00</u>	<u>\$ 433,195</u>			

(a) Forecasted average number of customers for the year 2000

(b) Forecasted average monthly consumption (1,000 gallons) for the year 2000

(c) Monthly Revenue Requirement divided by Billing Determinants

CAP Holding and Delivery Charges
2000 - 2004
Sun City Water

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
MDW Costs (per acre-foot):					
Capital charge	\$ 48	\$ 54	\$ 54	\$ 54	\$ 54
Delivery charge	54	59	68	71	75
MVD Offset	(16)	(16)	(16)	(16)	(16)
Total	<u>\$ 86</u>	<u>\$ 97</u>	<u>\$ 106</u>	<u>\$ 109</u>	<u>\$ 113</u>
Allocated Acre Feet	<u>4,189</u>	<u>4,189</u>	<u>4,189</u>	<u>4,189</u>	<u>4,189</u>
Total Payment to Recover	<u>\$ 360,254</u>	<u>\$ 406,333</u>	<u>\$ 444,034</u>	<u>\$ 456,601</u>	<u>\$ 473,357</u>
Residential Allocation (a)	282,763	318,931	348,522	358,386	371,538
Annual Monthly Bills	352,759	352,759	352,759	352,759	352,759
Monthly Charge per Household	<u>\$ 0.8016</u>	<u>\$ 0.9041</u>	<u>\$ 0.9880</u>	<u>\$ 1.0160</u>	<u>\$ 1.0532</u>
Other Customers Allocation (b)	77,491	87,402	95,512	98,215	101,819
Annual Consumption (1,000 gal.)	980,614	980,614	980,614	980,614	980,614
Monthly Charge per 1,000 gal.	<u>\$ 0.0790</u>	<u>\$ 0.0891</u>	<u>\$ 0.0974</u>	<u>\$ 0.1002</u>	<u>\$ 0.1038</u>

(a) 78.49% allocated to residential customers

(b) 21.51% allocated to other customers

CAP Holding and Delivery Charges

2000 - 2004

Sun City West Water

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
MDW Costs (per acre-foot):					
Capital charge	\$ 48	\$ 54	\$ 54	\$ 54	\$ 54
Delivery charge	54	59	68	71	75
MVD Offset	(16)	(16)	(16)	(16)	(16)
Total	<u>\$ 86</u>	<u>\$ 97</u>	<u>\$ 106</u>	<u>\$ 109</u>	<u>\$ 113</u>
Allocated Acre Feet	<u>2,372</u>	<u>2,372</u>	<u>2,372</u>	<u>2,372</u>	<u>2,372</u>
Total Payment to Recover	<u>\$ 203,992</u>	<u>\$ 230,084</u>	<u>\$ 251,432</u>	<u>\$ 258,548</u>	<u>\$ 268,036</u>
Residential Allocation (a)	174,780	197,136	215,427	221,524	229,653
Annual Monthly Bills	201,676	201,676	201,676	201,676	201,676
Monthly Charge per Household	<u>\$ 0.8666</u>	<u>\$ 0.9775</u>	<u>\$ 1.0682</u>	<u>\$ 1.0984</u>	<u>\$ 1.1387</u>
Other Customers Allocation (b)	29,212	32,948	36,005	37,024	38,383
Annual Consumption (1,000 gal.)	283,790	283,790	283,790	283,790	283,790
Monthly Charge per 1,000 gal.	<u>\$ 0.1029</u>	<u>\$ 0.1161</u>	<u>\$ 0.1269</u>	<u>\$ 0.1305</u>	<u>\$ 0.1353</u>

(a) 85.68% allocated to residential customers

(b) 14.32% allocated to other customers

**Sun City - Sun City West
Forgone Returns**

Computation Period	No. of Months	<u>Sun City Water</u>		<u>Sun City West</u>	
		Cumulative Amount Paid	Foregone Returns (a)	Cumulative Amount Paid	Foregone Returns (a)
11/94 - 1/95	3	\$ 27,151	\$ 668	\$ 16,908	\$ 416
2/95 - 5/95	4	27,151	869	16,908	555
6/95 - 11/95	6	67,146	3,223	41,814	2,057
12/95 - 5/96	6	124,281	5,965	77,394	3,808
6/96 - 10/96	5	181,416	7,257	112,974	4,632
11/96 - 4/97	6	255,692	12,273	159,228	7,834
5/97 - 12/97	8	329,967	19,204	205,482	11,959
1/98 - 5/98	5	460,713	16,758	262,410	9,545
6/98 - 7/98	2	552,129	8,033	319,339	4,646
8/98 - 12/98	5	561,249	20,415	319,339	11,616
1/99 - 5/99	5	661,785	24,072	376,267	13,687
6/99 - 9/99	4	762,320	22,184	433,195	12,606
			<u>\$ 140,922</u>		<u>\$ 83,361</u>

(a) Reflects authorized rates of return:

Decision No. 55885 (SC & SCW) 9.84%, effective 7/1/87

Decision No. 57741 (SC) 9.6%, effective 2/1/95

Decision No. 60172 (SC & SCW) 8.73%, effective 5/1/97

INTRODUCTION

Q. Please state your name and business address.

A. My name is Ray L. Jones. My business address in 15626 N. Del Webb Blvd., Sun City, Arizona 85351.

Q. Are you the same Ray L. Jones who presented pre-filed direct testimony in these proceedings of behalf of Sun City Water Company and Sun City West Utilities Company (collectively, "Citizens")?

A. Yes, I am.

Q. What is the purpose of your testimony

A. I am rebutting the testimony of Ms. Charlesworth on behalf of the Sun City Taxpayer's Association and Messrs. Fernandez and Scott on behalf of the Commission Staff.

REBUTTAL -- SUN CITY TAXPAYERS ASSOCIATION

Q. Please summarize the testimony of Mary Elaine Charlesworth concerning the CAP Task Force's CAP use plan and Citizen's request to obtain approval of the plan?

A. Despite claiming to recognize that CAP water represents a critical and important renewable water resource for central Arizona, SCTA does not support the CAP Task Forces' CAP use plan. Additionally, despite citing alternative plans developed by Mr. Dennis Hustead, SCTA's engineering consultant, Ms. Charlesworth testifies that SCTA does not support any of the CAP water use alternatives developed by Mr. Hustead or any other CAP water use alternative.

1 Q. How does SCTA justify its position?

2 A. Ms. Charlesworth's testimony provides the following arguments to support
3 her position.

- 4 1. The costs of using CAP water exceed the demonstrable benefits
5 to the ratepayers.
- 6 2. The costs of using CAP water, which provide benefits of a
7 regional nature, should be borne by the entire region.
- 8 3. Citizens' November 1984 analysis of CAP options relied upon
9 different factors than does Citizens' current position and
10 provides evidence that Citizens contracted for CAP water only to
11 protect its shareholders.
- 12 4. The CAP Task Force's CAP use plan is not prudent because it
13 contains unnecessary and costly components and other better
14 alternatives exist.

15
16 Q. Do you agree with SCTA's position that using CAP water in the Sun Cities
17 can only be justified by proving that the demonstrable direct benefits of the
18 selected CAP plan to the Sun Cities are in excess of the costs?

19 A. No. This is not an appropriate standard. As more fully explained in my
20 direct testimony, in August 1995 Citizens filed a Joint Application for rate
21 relief. As a part of this application, Citizens requested recovery of CAP-
22 related expenses. In that case, the relative costs and benefits (both direct
23 and indirect) of CAP water were discussed in detail. In Decision 60172, the
24 Commission provided only two reasons why Citizens' request for cost
25 recovery was denied. They were 1) CAP water was not used and useful;
26 and 2) Citizens did not have a definite plan to use CAP water; therefore its
27 ultimate use was uncertain and not a known and measurable event.

1 Q. Has the Commission already determined that the use of CAP water in the
2 Sun Cities is prudent?

3 A. Yes. The following findings in Decision 60172 confirm that the Commission
4 has already determined that the use of CAP water in Sun City is prudent
5 and provides sufficient direct and indirect benefits to justify the cost.
6

- 7 1) The demand of existing customers is contributing to the
8 groundwater depletion of the aquifer, land subsidence, and
9 other environmental damage (Decision 60172, p. 9, 3-5).
- 10 2) The consequences of such excessive groundwater withdrawal
11 include decreased water levels, diminished water quality, well
12 failures, increased pumping costs, and more land subsidence
13 (Decision 60172, p. 9, 5-7).
- 14 3) Citizens' decision to obtain CAP water was a prudent planning
15 decision (Decision 60172, p. 9, 10,11).
- 16 4) Citizens contracted for CAP in order to meet the continuing
17 groundwater requirements for its existing customers, and that,
18 provided the CAP allocation will ultimately be used, the existing
19 customers will benefit from the CAP allocation by contributing to
20 the use of renewable sources of water that will be used in the
21 Northwest Valley to prevent diminished water quality, well
22 failures, and future additional land subsidence, and thereby
23 protect their economic investment in the area (Decision 60172,
24 p. 9, 20-23; p.10, 1-3).
- 25 5) The Commission did not allow Citizens to collect a surcharge for
26 CAP costs. Instead, subject to the condition that Citizens
27 develop a plan and date of implementation by December 31,
28
29

1 2000, Citizens was allowed to defer CAP capital costs for future
2 rate recovery when the CAP water is put to beneficial use for
3 Citizens' ratepayers (Decision 60172, p. 10, 14-16).
4

5 Clearly, the Commission has determined that the overall benefits of CAP
6 water use exceed the costs. The only remaining issue is what CAP water
7 use plan to implement. The Commission should ignore Ms. Charlesworth's
8 irrelevant testimony that seeks to revisit issues the Commission has already
9 decided.
10

11 Q. What is the appropriate standard to use in this case?

12 A. As explained in my direct testimony (p. 6 & 7), CAP water is a community
13 resource, requiring the community to be deeply involved in the decision-
14 making process. Further, since there is no single correct plan for using CAP
15 water, selecting the correct option for CAP-water use in a community
16 requires the community to weigh the costs of the available options against
17 the community's unique assessment of the resulting benefits. The baseline
18 set by the Commission is that use of CAP water is beneficial. It is up to the
19 community to determine which option is most beneficial.
20

21 Q. Did the CAP Task Force weigh the costs of the available options against the
22 community's unique assessment of the resulting benefits?

23 A. Yes, it did. This was the primary function of the CAP Task Force. The
24 result of its evaluation is well documented in the Final Report. The CAP
25 Task Force independently developed the criteria used to evaluate the
26 options. Using sophisticated computer techniques and public input, the CAP
27 Task Force prioritized the criteria. Finally, each project was evaluated
28 against the criteria.
29

1 Q. Did the CAP Task Force conclude that the proposal currently before the
2 Commission is the proposal that provides the most benefit to the
3 communities of Sun City, Sun City West, and Youngtown?

4 A. Yes, the CAP Task Force's recommended plan is clearly the plan the
5 communities of Sun City, Sun City West, and Youngtown have concluded
6 provides them the most benefits.
7

8 Q. Do you agree with SCTA's position that the costs of using CAP water, which
9 provide benefits of a regional nature, should be borne by the entire region?

10 A. No, I do not agree with this position. The issue of allocation of the contract
11 costs associated with CAP water has been decided by the United States and
12 the State of Arizona. In 1971 the State of Arizona enacted legislation
13 allowing the Central Arizona Water Conservation District (CAWCD) to be
14 formed. This legislation also established the powers and obligations of the
15 CAWCD, including establishing the authority of CAWCD to collect revenues.
16 On December 15, 1972, the US and Central Arizona Water Conservation
17 District (CAWCD) entered into a contract for Delivery of Water and
18 Repayment of Costs of the Central Arizona Project (Master Repayment
19 Agreement). This Master Repayment Agreement establishes what portion
20 of the costs associated with CAP water are to be borne by the State of
21 Arizona through the CAWCD. Under its statutory authority, the CAWCD
22 entered into subcontracts with Citizens for repayment of certain portions of
23 the CAP related costs CAWCD incurs. The actual obligation of Citizens is set
24 annually by the Board of the CAWCD when it issues its annual pricing
25 schedule. When establishing its pricing the Board establishes the balance
26 between regional revenue sources, such as property tax assessments, and
27 subcontractor payment obligation (local revenue). Once the publicly
28 elected Board of CAWCD establishes Citizens' obligation, Citizens (and
29

1 ultimately its customers) will then pay the appropriate fair share. Just as
2 Citizens and its customers are not required to reimburse surrounding
3 communities for regional benefits derived from CAP water used outside of
4 Citizens' service territory, other entities that receive a regional benefit from
5 Citizens' use of CAP water, do not have to reimburse Citizens for these
6 benefits.

7
8 With respect to costs associated with the construction and operation of any
9 CAP project implemented by Citizens for Sun City or Sun City West, the
10 same principles apply. The amount of regional vs. direct benefit is
11 irrelevant. Whatever the project, and whatever the perceived split between
12 regional and direct benefits, the only entities required to pay the costs are,
13 in this case, Citizens and its customers. There simply is no option to
14 require any entity, which may receive an incidental benefit from a project
15 to pay for receiving that benefit.

16
17 Q. Do you agree with Ms. Charlesworth's characterizations of Citizens'
18 November 1984 analysis of CAP options as relying upon different factors
19 than the current position of Citizens and as providing evidence that Citizens
20 contracted for CAP water only to protect its shareholders?

21 A. No, I do not. Ms. Charlesworth misrepresents the analysis conducted by
22 David Chardavoyne, then Vice-President of the Citizens' Water Sector. She
23 depicts Citizens as concerned only with protecting shareholder interests. In
24 fact the analysis is comprehensive in that it attempts to outline all
25 advantages and disadvantages associated with various CAP water options.
26 The memo appropriately considers customer, developer, neighboring
27
28
29

1 community, and shareholder interests. A thorough reading of the analysis
2 reveals that Citizens properly considered all interested parties before
3 making a decision to contract for CAP water.

4
5 Specifically, the analysis shows that acceptance of all or part of the
6 allocation presents a risk to shareholders, because no recovery mechanism
7 was in place in 1984. Mr. Chardavoyne's only mention of shareholder risk
8 being lessened is under the "rejection of allocation" alternative. In other
9 words, if Citizens wanted to reduce shareholder risk in 1984, then Citizens
10 would have elected not to enter into a CAP subcontract. Additionally, the
11 Chardavoyne analysis specifically mentions (three times) concerns about
12 the loss of the groundwater supply and the impact that loss would have on
13 customers, including diminished existence for customers, enactment of
14 stringent water conservation measures and no alternative supplies.

15
16 Q. Does Commission Decision 60172 address this issue?

17 A. Yes, it does. On page 9, line 20 of the Decision, it states, in part:

18 "We find . . . that the Company contracted for CAP water in order to
19 meet the continuing groundwater requirements for its existing
20 customers as well as help it provide sufficient water to service all of
21 its service areas at ultimate development."

22 Q. Do you agree with SCTA's position that the CAP Task Force's CAP water-use
23 plan is not prudent because it contains unnecessary and costly components
24 and other better alternatives exist?

25 A. No, I do not. As is explained in the rebuttal testimony of Mr. Blaine Akine,
26 Mr. Hustead has drawn erroneous conclusions regarding the plan. Ms.
27 Charlesworth has relied upon these erroneous conclusions in stating SCTA's
28 position.

1 Q. Would you comment on SCTA's recommendation that cost recovery of
2 deferred CAP costs be denied?

3 A. In his rebuttal testimony Mr. Carl Dabelstein addresses why the costs
4 should be recovered as proposed by Citizens. I agree with Mr. Dabelstein's
5 comments and will not duplicate his testimony. I will, however, point out
6 errors in the justification of the SCTA's position.
7

8 SCTA believes that recovery should be denied because Citizens could have
9 implemented the current CAP plan or any other CAP use plan fourteen
10 years ago. SCTA further concludes that by doing so Del Webb and other
11 developers could have been required to finance most, if not all, of the CAP
12 costs. SCTA is incorrect in both of its positions.
13

14 First, State statutes did not permit an indirect or in-lieu recharge, as
15 proposed by the CAP Task Force, until 1990. The Maricopa Water District
16 Groundwater Savings Facility was not permitted until 1998. Further, as is
17 evidenced by this case and previous Citizens filings related to CAP, projects
18 of this magnitude require several years to become reality from the time
19 planning begins. The Agua Fria Recharge project is another good example.
20 Despite the best efforts and intentions of CAWCD, they have been unable to
21 construct and permit their facility in accordance with their original timetable
22 projecting completion in 1999. The project is now expected to be
23 operational in 2000. It is clearly wrong to state that the proposed project
24 or the alternative projects could have been implemented fourteen years
25 ago.
26

27 Second, Del Webb had built-out Sun City by 1978, seven years before
28 Citizens signed its CAP contracts. With respect to Sun City West, a master
29

1 development agreement was signed in 1978, again seven years before
2 Citizens signed a CAP subcontract. Clearly, Del Webb cannot be expected
3 to retroactively fund the CAP costs that are the subject of this case – the
4 earliest of which were incurred in 1995.

5
6 Finally, development by entities other than Del Webb in the Sun City and
7 Sun City West service areas is of insufficient size to fund the deferred CAP
8 costs. In any event, new developments are required to join the Central
9 Arizona Groundwater Replenishment District, which taxes those
10 developments to pay for CAP water replenished on their behalf. Citizens'
11 use of CAP water does little to reduce this replenishment obligation. Since
12 these developments are essentially purchasing their own separate CAP
13 supply, it would be inappropriate to require them to pay CAP costs that
14 benefit the other customers of Citizens. Citizens' cost recovery proposal
15 correctly allocates the costs to all of Citizens' customers who equally benefit
16 from its use.

17
18 **REBUTTAL – ARIZONA CORPORATION COMMISSION STAFF**

19 Q. Do you agree with Staff's recommendation that the Commission reject
20 Citizens' request for an order approving the general concept of the
21 construction of a pipeline to the golf courses as a reasonable and prudent
22 approach for implementing the long-term solution for the utilization of CAP
23 water in the Sun Cities?

24 A. No, I do not agree with this recommendation. I believe that this order is
25 absolutely necessary to insure that CAP water will be used in the Sun Cities.

1 Q. Please explain your position?

2 A. To date, Citizens has invested over \$1.5 million in CAP capital charges.
3 Several hundred thousand dollars in additional expenses have been
4 incurred for water resource studies, cost analysis, and for supporting the
5 CAP Task Force. Of these costs Citizens is asking for recovery of only
6 \$1,356,220. In December an additional \$423,696 in capital charges will be
7 due. Most importantly, the next step in the process of implementing the
8 CAP Task Force's water-use plan will be extensive preliminary engineering
9 and coordination phase that will require dedication of full-time staff and
10 extensive outside engineering services. Citizens cannot be expected to
11 incur these levels of expenditures without the Commission finding that the
12 golf course option proposed by the CAP Task Force is a reasonable and
13 prudent approach for implementing the long-term solution for the utilization
14 of CAP water in the Sun Cities.

15
16 Q. Do you agree with Staff's characterization of Citizens requested order as an
17 Accounting Order?

18 A. No, I do not. Citizens is not requesting pre-approval of any actual
19 expenditures. Citizens is not requesting any special treatment of the
20 expenditures it incurs. In simple terms, Citizens is asking the Commission
21 to find that the plan proposed by the CAP Task Force is the correct plan to
22 implement in the Sun Cities. This level of approval would not constitute an
23 Accounting Order.

24
25 Q. Why is it appropriate for the Commission to issue this order?

26 A. I fully address this in my Direct Testimony beginning on page 8, line 15.
27 Summarizing, there is no single correct plan for using CAP water in the Sun
28 Cities. The Commission is the only elected body with the authority to make
29

1 the needed decision. While the Task Force's plan represents the consensus
2 position of the community, it is not binding. Given the significant costs and
3 long-term implications to the communities of the selected CAP option, it is
4 appropriate to have the CAP Task Force's recommendation approved by the
5 Commission.

6
7 Q. Do you agree with Staff's recommendation to require Citizens to file an
8 financing application in this matter?

9 A. No, I do not. Citizens is prepared to fund this project using existing
10 sources of capital with the application of an Allowance for Funds Used
11 During Construction in accordance with standard Commission-approved
12 practices. Should an alternative financing method be identified prior to
13 constructing the project, Citizens would file for any Commission approvals
14 that are required to utilize the alternative financing.

15
16 Q. Is it appropriate for the Brown and Caldwell cost estimate for the CAP Task
17 Force's recommended CAP water-use plan to be relied upon by the
18 Commission in making a decision to approve the plan?

19 A. Yes, it is. As is noted by Staff witnesses Mr. Marlin Scott, the cost estimate
20 is conservative. In other words, when an actual condition is not known, the
21 engineer assigns sufficient cost to insure that the project can likely be
22 constructed within the estimated amount under all likely scenarios. For
23 example, the Brown and Caldwell estimate includes costs for booster
24 facilities even though it may be possible to operate the system by gravity.
25 By making the estimate conservative, the CAP Task Force insured that the
26 Commission could rely upon the estimate, since it is unlikely that the actual
27 costs will exceed the estimate.

1 Q. If actual costs are lower than the Brown and Caldwell estimate should the
2 Commission be concerned?

3 A. No. To the extent that the actual costs are lower than the estimate, this
4 strengthens the conclusion that the CAP Tasks Force's plan is the most
5 beneficial plan for Sun City, Sun City West, and Youngtown.
6

7 Q. Will cost recovery for the project be based on actual costs?

8 A. Yes, the Commission will use actual costs as the basis for establishing
9 Citizens cost recovery for the project.
10

11 Q. Has the Brown and Caldwell cost estimate been independently reviewed?

12 A. Yes it has. As described in the Statement of the CAP Task Force, the Sun
13 City Homeowners Association, supported by a grant from the Arizona
14 Department of Water Resources, contracted with Entranco to review the
15 Brown and Caldwell estimate and make its own estimate of the projected
16 infrastructure costs. The Entranco engineering report confirmed that the
17 estimates made in the Brown and Caldwell report are reasonable.
18

19 Q. Does this conclude your testimony?

20 A. Yes, it does.
21
22
23
24
25
26
27
28
29

INTRODUCTION

Q. Please state your name, title and business address.

A. My name is Terri Sue C. Rossi. I am the Manager of Water Resources for Citizens Water Resources. My business address is 15626 N. Del Webb Boulevard, Sun City, Arizona 85375.

Q. Are you the same Terri Sue C. Rossi who presented pre-filed direct testimony in these proceedings on behalf of Sun City Water Company and Sun City West Utilities Company (collectively "Citizens")?

A. Yes, I am.

Q. Did you participate in the CAP Task Force?

A. I was a member of the CAP Task Force representing Citizens and attended all Task Force meetings. I was also the project manager for the Task Force as a work product.

Q. What is the purpose of your rebuttal testimony?

A. I am rebutting the direct testimonies of Mary Elaine Charlesworth for the Sun City Taxpayers Association ("SCTA") and Marylee Diaz Cortez for the Residential Utility Consumer Office ("RUCO"). I will be addressing four primary areas of concern:

- SCTA's opposition to CAP water;
- Assured water supply issues and the use of CAP water;
- Support for groundwater savings project with golf courses; and
- Link between water conservation and use of renewable water supplies.

REBUTTAL TO MARY ELAINE CHARLESWORTH

I. SCTA Opposition to CAP Water

Q. What position did SCTA initially take regarding CAP water?

A. Before the public planning process, SCTA supported the reassignment of part of Sun City Water Company's CAP allocation to the Agua Fria Division. In a letter of support to the Arizona Department of Water Resources, SCTA wrote:

As you are aware, Taxpayers was actively involved in Citizens' rate case before the Arizona Corporation Commission. In particular, Taxpayers was quite vocal on the issue of paying the holding costs for CAP water. During the proceedings, Taxpayers argued that the allocation for Sun City Water Company was onerous on the rate payers of Sun City. Taxpayers repeatedly asked Citizens to re-evaluate the amount of CAP water that should be put to use in Sun City. We are pleased that Citizens has finally taken our advice.

We have reviewed the white paper prepared by Citizens and find the result acceptable. Taxpayers, contrary to public perception, is not anti-CAP water. Taxpayers simply desires that the rate payers only be required to pay for their fair share. The analysis prepared by Citizens is based on sound reasoning and Taxpayers is ready to support the amendment to Sun City's subcontract accordingly.

At the first and second meetings of the CAP Task Force, SCTA representatives demonstrated further support for the use of CAP water by agreeing to the following mission statement:

The underlying principle of this cooperative public planning process is that CAP water is needed to maintain the quality of life in Sun City, Sun City West and Youngtown. The mission of the Task Force is to develop consensus on the best plan for the use of CAP water that meets the Arizona Department of Water Resources guidelines to

1 achieve "safe yield", and that will be supported and paid for by the
2 customers of Sun City Water Company and Sun City West Utilities
3 Company.

4 Q. Did SCTA change its support for CAP water?

5 A. Yes. While SCTA initially supported keeping 4,189 acre-feet of CAP water
6 for use in Sun City and then supported a mission statement to develop the
7 best plan for use of CAP water, SCTA later changed its position and began
8 lobbying for relinquishment of the CAP water. Representatives of SCTA
9 lobbied other Task Force members and focused much of the Task Force's
10 discussion on SCTA's preferred option—relinquishment. As a result of
11 SCTA's lobbying, relinquishment of the CAP allocation was discussed as
12 early as the third Task Force meeting. Ms. Charlesworth, who was not
13 officially representing SCTA on the Task Force, began sitting at the table
14 and interacting with the Task Force as a third representative of SCTA.

15
16 At the March 31, 1998, meeting, SCTA escalated its presence further by
17 inviting Michael Curtis to attend the Task Force meeting. Mr. Curtis,
18 introduced as legal counsel to SCTA, made an argument that the customers
19 cannot afford CAP water, so any option that uses CAP water would be
20 unfair. Task Force members were disturbed by the presence of a fourth
21 SCTA representative sitting at the table, as evidenced by newspaper
22 articles describing the meeting.

23
24 At this same meeting, one of the representatives of the SCTA (Preston
25 Welch) engaged in an altercation with another Task Force member that
26 resulted in Mr. Welch leaving the Task Force deliberations and submitting
27
28
29

1 his resignation. At the next Task Force meeting, Ms. Charlesworth replaced
2 Mr. Welch as the official second SCTA representative.

3
4 At the April 7, 1998, meeting, SCTA escalated even further its position that
5 relinquishment was the only acceptable option and invited Commissioner
6 Jim Irvin to attend a Task Force meeting as SCTA's guest. Mr. Irvin
7 attended the meeting, but made no statement supporting or opposing the
8 use of CAP water.

9
10 At the April 21, 1998, meeting, Ms. Charlesworth implored the Task Force
11 to continue deliberating relinquishment as an option. The Task Force
12 agreed to include relinquishment as an option that would be evaluated
13 against the same criteria as the use options. In addition, the Task Force
14 agreed to hear presentations supporting SCTA's position by Bill Sullivan,
15 SCTA's legal counsel, and Preston Welch, former CAP Task Force member
16 representing SCTA.

17
18 Q. What happened during the Task Force meeting where SCTA advocated its
19 position on relinquishment?

20 A. At the April 28, 1998, meeting, the Task Force devoted the entire meeting
21 to discussing SCTA's position. No other option received this amount of
22 attention from the Task Force. During the meeting, Mr. Welch was asked
23 why SCTA supported a partial reassignment of Sun City's CAP allocation
24 earlier in the year, if SCTA's position has been to relinquish the allocation.
25 Mr. Welch responded that he did not think Citizens would consider a total
26 reassignment. Mr. Welch was further questioned as to how much SCTA

1 would be willing to pay for CAP water. Upon further querying, Mr. Welch
2 would not agree to support the use of CAP water even if Citizens paid all
3 the costs.

4
5 Mr. Sullivan made a separate presentation and reasoned that all the harms
6 explored by the Task Force were speculative, that to the extent these
7 harms did occur surrounding communities would ameliorate those harms,
8 and finally that with the exception of the groundwater savings project with
9 the golf courses and water treatment plants, the CAP-use options being
10 considered by the Task Force would not mitigate those harms to Sun City
11 and Sun City West residents.

12
13 Q. What happened next?

14 A. At the end of April, the Task Force hosted two community open houses,
15 where SCTA representatives and their attorneys advocated relinquishment
16 to people attending the open houses. Based on a survey conducted of
17 attendees, SCTA's efforts were unproductive. There were 180 attendees at
18 the open houses. 103 attendees completed surveys. Of those, 94
19 attendees, or 91% of those surveyed, believed the CAP water should not be
20 relinquished under any circumstances.

21
22 At the meeting on May 12, 1998, SCTA excused itself from the Task Force
23 saying that the water use options should be voted upon and that the
24 process [the Task Force process] was offensive.

1 After the Task Force finished its work, SCTA published large advertisements
2 in the local newspapers aimed at persuading the community to support
3 SCTA's position to relinquish the CAP allocation. In addition, SCTA held
4 public meetings to address the issue of CAP water. SCTA representatives
5 were repeatedly quoted in newspaper articles in opposition to the Task
6 Force and its recommendation to use CAP water.
7

8 Q. Is Ms. Charlesworth being completely straight forward when she states that
9 SCTA does not oppose importing CAP water?

10 A. No. Based on the actions and statements of SCTA during and since the CAP
11 Task Force, no reasonable person could conclude that SCTA supports
12 importing CAP water. Further, SCTA's filed testimony in this proceeding
13 substantiates SCTA's opposition to CAP water. In her testimony, Ms.
14 Charlesworth is asked if SCTA opposes the importation of CAP water. While
15 she responds "Absolutely not", Ms. Charlesworth undermines her position
16 later when she is asked if SCTA advocates any CAP water use options and
17 fails to identify any acceptable option.
18

19 The financial viability of the CAP depends substantially on CAP
20 subcontractors using and paying for their CAP allocations. It is inconsistent
21 to support the importation of CAP water into central Arizona at the cost of
22 over \$5 billion to taxpayers across the United States and then refuse to use
23 the resource once it is brought to the door steps of Sun City because SCTA
24 is "offended" by an evaluation process used by a community group to
25 decide how to use a community resource—its CAP allocation.
26
27
28
29

1 Q. Should SCTA's position be given much credence given the consensus
2 decision made by the CAP Task Force?

3 A. No. The decision to keep and use the CAP allocation was made through a
4 consensus, decision-making process. The SCTA dropped out just before the
5 final decision was made. SCTA's opinions were solicited by the facilitator
6 during the development of the Task Force process. SCTA had between two
7 and four representatives at the Task Force deliberations. SCTA's preferred
8 alternative was given more time than all of the use options combined.
9 Even so, the Task Force as a whole concluded that the CAP water should be
10 kept and put to use. In its testimony, the CAP Task Force provides
11 considerable discourse substantiating the widespread community support
12 for keeping CAP water and for delivering CAP water to the groundwater
13 savings project with the golf courses.

14
15 Furthermore, SCTA purports to represent the same people that were
16 already represented on the Task Force by the Recreation Centers of Sun
17 City and the Sun City Homeowners Association. These two organizations
18 are better suited to represent the community on the CAP issue than SCTA
19 is, because SCTA's mission and responsibilities are too narrowly focused to
20 consider environmental threats to the community.

21
22 In short, despite vigorous past and ongoing efforts to garner support for its
23 position, SCTA has been unable to persuade the Task Force members, the
24 community, or the staffs of the ACC and RUCO, that Citizens' CAP water
25 allocation should be relinquished.

1 Q. Is relinquishment even an option to consider in this proceeding?

2 A. No. The Commission already decided to retain the CAP allocation in
3 Decision No. 60172. The Commission found that Citizens' decision to
4 obtain a CAP allocation was a "prudent planning decision". SCTA's
5 testimony is inconsistent with Decision No. 60172. The groundwater
6 savings project described in this proceeding is consistent with Decision No.
7 60172. Mr. Ray Jones' rebuttal testimony discusses this issue further.
8

9 **II. Assured Water Supply Determinations and the Use of CAP Water**

10 Q. What is a 100-year assured water supply?

11 A. A 100-year assured water supply is a point-in-time determination defined
12 legally by statute (A.R.S. § 45-576.I) as sufficient water of adequate quality
13 that will be continuously available to meet the water needs of the proposed
14 use for at least 100 years and will be consistent with state mandated
15 conservation requirements and water management goals of the area (i.e.
16 safe yield). In addition, whoever is constructing the facilities to bring this
17 supply to the subdivision must be financially capable of constructing the
18 necessary infrastructure to bring the supply to the customers.
19

20 Obtaining an assured water supply is a regulatory requirement imposed
21 upon persons who propose to offer subdivided lands for sale or lease in
22 active management areas (groundwater basins actively managed by
23 ADWR). An assured water supply can be obtained in the form of a
24 certificate of assured water supply or it can be achieved by obtaining
25 service from a water provider designated as having an assured water
26 supply.
27
28
29

1 The first generation of today's assured water supply program was
2 implemented in 1973 and was limited to consumer protection concerns.
3 While it addressed water supply in general, it did not prohibit the sale of
4 subdivided homes for lack of an adequate water supply. Instead, the
5 program simply required that if an adequate supply was not available, this
6 information must be disclosed to the buyer and presented in all promotional
7 materials. In 1980, the Arizona Groundwater Management Act (AGMA)
8 included provisions that superceded the 1973 adequacy program. The new
9 assured water supply program imposed additional requirements that
10 extended beyond the consumer-protection provisions found in the 1973
11 adequacy program and introduced the concept of limiting groundwater
12 withdrawals to safe yield levels.

13
14 Q. Was Del E. Webb Development Company required to obtain a certificate of
15 assured water supply to develop Sun City?

16 A. No. Webb was not required to obtain a 100-year assured water supply in
17 order to sell or lease subdivided homes in Sun City. When Citizens signed
18 its development agreement with Webb in 1962, no assured water supply
19 program existed, not even the limited requirements under the 1973
20 program. Sun City was subdivided and under active sales by 1973. By
21 1980, when the AGMA was enacted, Del Webb had constructed over 25,000
22 homes in Sun City.

23
24 Q. In its testimony, SCTA concludes that the Arizona Water Commission's
25 1974 finding of adequate water supply and the Commission's subsequent
26 finding of assured water supply in 1980 mean that the groundwater supply
27
28
29

1 is adequate to meet the demands of Sun City indefinitely. Based on your
2 understanding of these documents, do you agree with SCTA's conclusion?

3 A. No. When the Arizona Water Commission issued its 1974 letter of
4 adequacy, referred to by Ms. Charlesworth in her testimony, the
5 Commission was making a point-in-time determination. In his letter,
6 Wesley Steiner, Executive Director of the Commission, warns that, if
7 information not known at that time the adequacy determination results in a
8 finding of inadequacy, the Commission could revoke the designation
9 granted in the letter.

10
11 In 1980, Mr. Steiner notified Sun City Water Company that its designated
12 status under the adequacy program had been carried over into the new
13 assured water supply program. Again, this was a point-in-time
14 determination. In this letter, Mr. Steiner makes it clear that the newly
15 enacted AGMA envisioned CAP as the primary source of water for
16 demonstrating an assured water supply and that an unconditional offer to
17 enter into a CAP subcontract created a "presumption of an assured water
18 supply".

19
20 The law had clearly changed. While Mr. Steiner continued Sun City Water
21 Company's designation based on the water supply studies conducted under
22 the 1973 program, he clearly indicated that the designation would be
23 revoked if future evaluations revealed that the water supply used as the
24 basis for the designation was found to be inconsistent with the
25 management plan and goals of the active management area. He further
26 indicated that the designation would be revoked "unless the utility has
27
28
29

1 protected its designation by filing with the Director an unconditional offer to
2 contract for CAP water and proceeds to enter into the contract when offered
3 by the Secretary."
4

5 Q. Does the 1984 Water Resources Planning Study conducted by Citizens
6 conclude, as also suggested by SCTA, that sufficient groundwater exists to
7 meet Sun City's demands indefinitely?

8 A. No. In fact, the opposite is true. The 1984 study concluded that Citizens
9 should not only pursue groundwater savings projects and direct recharge
10 projects using CAP water, but the study also recommended that Citizens
11 pursue recharging wastewater currently treated at the Tolleson Waste
12 Water Treatment Plant. The study in no way concluded that Citizens should
13 relinquish its CAP allocation.
14

15 In the study, two modeling scenarios were examined. The first study
16 assumed demands would be met exclusively with groundwater. Under this
17 scenario, severe groundwater overdraft and water-table declines were
18 demonstrated. The second scenario also assumed that demands would be
19 met exclusively with groundwater, but this scenario also assumed that two
20 recharge projects would be constructed and operated. This scenario
21 demonstrated that the recharge projects could stabilize or reverse water
22 table declines in some areas.
23

24 Q. Is Sun City Water Company designated as having an assured water supply
25 today?

26 A. No. Since the inception of the AGMA, ADWR has promulgated rules to
27 implement the statutory provisions related to assured water supply.
28
29

1 Specifically, the rules defined "consistency with the management goal," a
2 concept referred to in the 1980 Steiner letter. In the 1980 letter, the
3 standard for obtaining a designation was signing a CAP subcontract. In
4 1995, after the assured water supply rules were promulgated, the standard
5 was raised. Just holding a CAP allocation was not sufficient. The supply
6 had to be put to use.

7
8 On August 7, 1995, Citizens applied for designation of assured water supply
9 for both Sun City Water Company and Sun City West Utilities Company. On
10 September 22, 1995, ADWR issued a notice of incompleteness for both
11 utilities, citing among other items, that no information submitted clearly
12 demonstrated that the water used would be consistent with the
13 management goal as demonstrated through direct physical access to
14 sufficient renewable water supplies. On December 6, 1995, because
15 Citizens' applications for designation remained incomplete, ADWR revoked
16 the point-in-time determinations made by the Arizona Water Commission in
17 1974 and 1980.

18
19 Q. Why did Citizens not complete the applications and obtain the designations?

20 A. Citizens could not demonstrate consistency with the management goal
21 through direct physical access to sufficient renewable water supplies.

22
23 Q. Did the determinations of an adequate water supply in 1974, and an
24 assured water supply in 1980, mean that groundwater would be available
25 to meet the demands of Sun City indefinitely?

1 A. No. These determinations simply meant -- when the determinations were
2 made -- that hydrologists calculated that there was enough groundwater
3 stored in the aquifer beneath Sun City to a depth of 1,200 feet and that the
4 annual water level decline rate in the area was less than 10 feet per year.

5
6 In the CAP Task Force's Final Report and in its testimony, the members of
7 the CAP Task Force identified the consequences of continued long-term
8 groundwater declines. These consequences included a number of harms
9 including land subsidence and earth fissuring. All of the consequences of
10 groundwater declines identified by the CAP Task Force have been occurring
11 in the proximity of Sun City. These harms are being realized long before
12 the water table has reached a depth of 1,200 feet.

13
14 Moreover, groundwater demands placed on the aquifer today are
15 significantly higher than in 1974. Numerous investigations have been
16 conducted since 1974 and all of those studies have concluded that
17 groundwater declines are significant.

18
19 Again, it is important to realize that an assured water supply certificate or
20 designation is a point-in-time determination. What was known and
21 understood today was not known and understood in 1974.

22
23 Q. What will guarantee that the demands of Sun City will be met indefinitely?

24 A. The best way to secure the most reliable supply of water to meet demands
25 indefinitely is to develop a renewable water supply, like Sun City's CAP
26 allocation, and use it to replace groundwater mining occurring in Sun City

1 today. The only way to prevent the consequences of groundwater declines
2 is to stop pumping groundwater.
3

4 Q. Is Sun City's CAP entitlement significant enough to meet 100% of Sun
5 City's demands?

6 A. No. CAP water, like groundwater, is a limited supply. When CAP water was
7 allocated to water utilities in Arizona, Citizens attempted to get enough to
8 meet 100% of its demands. Competing demands in the Phoenix area
9 limited CAP supplies for all parties. Citizens anticipates that additional CAP
10 water or some other supply will be needed to offset the groundwater use
11 not offset by Sun City Water Company's existing entitlement to CAP water.
12

13 Q. Is it significant or relevant that when Sun City was developed all water
14 demands were supplied by groundwater and not CAP water?

15 A. No. Expressions of interest for CAP water were not even received by the
16 Arizona Water Commission until 1974. Subcontracts for CAP water were
17 not tendered for consideration until 1984. The only source available for
18 Sun City was groundwater. Moreover, because Sun City was subdivided
19 before 1973, Webb was not obligated to demonstrate any supply
20 sufficiency, let alone disclose any deficiency had it been found. Nor was
21 Webb obligated to disclose that the community was dependent on mined
22 groundwater.
23

24 Q. Are past expectations of Sun City residents relevant to resolving today's
25 groundwater declines?
26
27
28
29

1 A. No. First, given normal residential turnover, it is very unlikely that many of
2 the original Sun City residents from the early 1970s are still occupying
3 homes there today. Second, regardless of any expectations, the
4 inescapable fact remains that past and present Sun City residents bear
5 some responsibility for the current ground water problems. The Task Force
6 accepted this responsibility and offered a solution:

7 ...the Task Force recognized the one essential and inescapable fact
8 that the Retirement Communities (i.e. Sun City, Sun City West and
9 Youngtown) themselves are currently pumping substantially more in
10 acre-feet of water per year than natural recharge is replenishing.
And that overdraft is their responsibility.

11 If the Retirement Communities are to escape the worst effects of
12 their overdraft in groundwater pumping, then CAP water must be
13 used in a manner which clearly and directly reduces the current
amount of groundwater pumping.

14
15 Further, the Task Force recommended the groundwater savings project for
16 the golf courses because it would provide a direct and immediate benefit to
17 the potable wells in Sun City, Sun City West and Youngtown. The Task
18 Force did not want the water stored at the groundwater savings facility to
19 be pumped by users located closer to the location where the groundwater is
20 saved, in the case of a groundwater savings project, or recharged, in the
21 case of a direct recharge project.

REBUTTAL TO MARYLEE DIAZ CORTEZ

III. Support for Groundwater Savings Project with Golf Courses

Q. Please summarize RUCO's position regarding acceptance of the groundwater savings project for the golf courses as the permanent solution to using CAP water in Sun City and Sun City West.

A. RUCO's position is that, while the higher cost of CAP water versus groundwater is outweighed by the furtherance of state water policies and goals, CAP water at any cost is not necessarily required, justified or prudent. RUCO finds Citizens has three water use options that meet state water policy goals and sees no need to select the most expensive of the three options. Finally, RUCO argues that it is premature to commit to the construction of the groundwater savings project with the golf courses before trying the groundwater savings project with MWD or the Agua Fria Recharge Project to see if these projects will work to meet similar objectives.

Q. Is RUCO correct in its statement that all three water-use options meet state water policy goals?

A. Yes. To varying degrees, all of the options considered by the Task Force, including the three discussed in this proceeding, meet state water policy goals. For that matter, even relinquishment would further water policy goals since the allocation could be transferred to another user in the Active Management Area who could replace existing groundwater demands with CAP water. Obviously, while relinquishment would further state water management goals in another location, relinquishment would not provide any benefit to Sun City, Sun City West or Youngtown. The issue is not

1 whether these projects or any of the projects considered by the Task Force
2 meet state water policy—all of them do. The issue is which projects
3 provide the most direct and immediate benefit to Sun City, Sun City West
4 and Youngtown.

5
6 Q. Which options provide the most direct benefit?

7 A. In its deliberations, the Task Force evaluated each project against several
8 criteria including direct benefit. The groundwater savings project with the
9 golf courses scored highest, followed closely by the water treatment plant
10 options. Citizens' local area recharge project scored considerably lower
11 than the treatment plant options, followed closely by the Agua Fria
12 Recharge Project. The MWD project followed considerably behind the Agua
13 Fria Recharge Project and relinquishment performed poorly on this
14 criterion.

15
16 Q. Is direct benefit important to Citizens?

17 A. Yes. Citizens' water service areas are located in an area that boasts some
18 of the highest groundwater decline rates and subsidence rates, not only in
19 the Phoenix Active Management Area, but in the State of Arizona. ADWR
20 has identified the northwest valley as a "critical decline area" and is
21 focusing its regulatory resources on resolving the continued groundwater
22 declines in the area. While Citizens agrees that the three projects
23 discussed in this proceeding all meet state water policy goals, Citizens
24 believes that meeting the lowest common denominator is not sufficient to
25 mitigate the harms of long-term declines in our area. More aggressive
26
27
28
29

1 action must be taken to address the concerns raised in the Task Force
2 report and in other studies documenting land subsidence, earth fissuring
3 and other harms associated with groundwater declines.
4

5 Q. Is direct benefit important to Citizens' customers?

6 A. Yes. When establishing the relative importance of the numerous criteria
7 considered by the Task Force, "direct benefits" was the most important
8 criterion. "Cost" ranked second and "public acceptability" ranked third.
9 During the community open houses conducted by the Task Force, members
10 of the public were surveyed. Of those surveyed, the most important
11 criteria were "direct benefits" and "water quality". Both of these criteria
12 were equally important to those surveyed. While the Task Force ranked
13 "cost" as being the second most important criterion, the public viewed
14 "cost" as the fourth most important criterion.
15

16 Those surveyed at the open houses also favored the golf course option over
17 the other options. Finally, the CAP Task Force in its testimony makes
18 compelling arguments for why recharge of CAP water at a remote site is not
19 acceptable:
20

21 The Task Force concluded that there is really only one effective way
22 to make use of CAP water in a manner that will directly benefit the
23 Retirement Communities and that is to turn off the current pumping
24 of groundwater to the maximum extent possible, and replace that
25 pumping with CAP water delivered to the golf courses currently doing
26 the pumping. Any other approaches which have been considered
27 simply do not allow the Retirement Communities to deal with the
28 triple problems of subsidence, falling groundwater tables and
29 regulatory demands to achieve safe yield.

1 Q. Is "direct benefit" important to any others who intervened in this
2 proceeding?

3 A. Yes. The Staff's testimony clearly indicates that they understand the
4 importance of "direct benefit" to the customers. Staff recommends remote
5 recharge of CAP water at the MWD recharge project until the Agua Fria
6 Recharge Project is in place. But Staff viewed remote recharge at either
7 location only as an interim solution, until the groundwater savings project
8 with the golf courses is completed.
9

10 Q. Is the groundwater savings project with the golf courses consistent with the
11 regulatory principle of least-cost alternative?

12 A. Yes. Of the three options that performed highest on the direct benefit
13 criterion used to evaluate all the water use options, the groundwater
14 savings project with the golf courses is the least-cost alternative.
15

16 Q. Should the Commission approve the groundwater savings project with the
17 golf courses irrespective of the least-cost alternative principle?

18 A. Yes. Just as the decision to allocate the costs across the community is best
19 left with the community, as I will discuss below, so should be the decision
20 to store CAP water at a groundwater savings project with local golf courses
21 instead of storing CAP water at the MWD groundwater savings project.
22
23
24
25
26
27
28
29

IV. Link Between Water Conservation and Use of Renewable Water Supplies

Q. What is the Total Gallons per Capita Per Day (GPCD) Program?

A. The Total GPCD Program is one of three conservation program offered to large municipal water providers regulated under the State's Municipal Conservation Program. The purpose of the Total GPCD program is to reduce the consumption of groundwater, not CAP water. The use of CAP water, or some other renewable water supply, like the conservation program, is another tool water managers can use to reduce groundwater pumping.

Q. When ADWR determines compliance with GPCD requirements, are groundwater and surface water sources treated differently?

A. Yes. When calculating compliance with the Total GPCD requirement, ADWR assumes that groundwater is the last source of supply used. Surface water sources like CAP water and SRP water are counted first. If a water provider exceeds its GPCD requirement and the overage is less than the total amount of groundwater used, then ADWR takes enforcement action against the total overage. If the overage exceeds the total amount of groundwater used, then ADWR only takes enforcement action against the groundwater portion of the overage. The following examples illustrate ADWR's enforcement policy:

EXAMPLE 1: In 1998, ABC Water Company was entitled to use 10,000 acre-feet of water according to its GPCD requirement. In 1998, ABC Water Company actually used 15,000 acre-feet. The overage is 5,000 acre-feet.

1 Since ABC Water Company is 100% dependent on groundwater, ADWR will
2 take enforcement action against the entire 5,000 acre-feet.

3
4 EXAMPLE 2: In 1998, 123 Water Company was also entitled to 10,000
5 acre-feet of water according to its GPCD requirement. In 1998, 123 Water
6 Company actually used 15,000 acre-feet. The overage is again 5,000 acre-
7 feet. Fortunately, 123 Water Company has a CAP allocation of 14,000
8 acre-feet that it stored at the MWD groundwater savings facility and
9 recovered as CAP water through groundwater wells in 1998. The
10 groundwater portion of the overage is only 1,000 acre-feet. Hence, ADWR
11 will only take enforcement action against 1,000 acre-feet.

12
13 Just as groundwater use is the "cost causer" in a GPCD enforcement action,
14 groundwater use is the cost causer forcing the shift to CAP water.

15
16 Q. What causes a water provider to exceed its Total GPCD requirement?

17 A. In her testimony, Ms. Diaz Cortez concludes that because commercial
18 customers are not included in the equation to calculate compliance with
19 GPCD requirements, they are in large part the reason for exceeding the
20 GPCD limits. This is not true. There are many reasons why a water
21 provider might exceed its conservation requirement including weather
22 fluctuations, poorly set conservation requirements, changes in occupancy
23 and person-per-household rates, and changes in ratios of seasonal to non-
24 seasonal population to list a few. But since Ms. Diaz Cortez specifically
25 points out commercial users and later in her testimony recommends placing
26 the cost of CAP primarily onto commercial users, I will address in detail that
27 component of the GPCD requirement applicable to commercial customers.

1 The GPCD requirements established by ADWR include a component for
2 commercial usage. At the time the requirements were established for Sun
3 City and Sun City West, the percentage of commercial water usage was
4 15% of customer deliveries in Sun City and 14% in Sun City West. In
5 1998, the percentage of commercial water usage was 20% in Sun City and
6 15% in Sun City West.

7
8 As an example, assume the residential usage in ABC Water Company is 85
9 GPCP. The GPCD requirement established by ADWR assumes, for example,
10 that commercial water use is 15% of total deliveries. The GPCD
11 requirement will then be adjusted to include an additional 15 GPCD for
12 commercial, raising the requirement to 100 GPCD. So each residential
13 GPCD gets 15 additional GPCD to account for commercial demand in the
14 service area. The logic behind this assumption is that the people who live
15 in the service area cause the use of the water by commercial
16 establishments in their service area.

17
18 ADWR's assumptions break down when the proportion of residential-to-
19 commercial deliveries changes causing a larger portion of the deliveries to
20 be made to commercial users. Only under this condition do commercial
21 customers cause an increase in the GPCD not anticipated by the
22 requirement. To a limited extent, this is occurring in Sun City with a slight
23 increase in commercial use from 15% to 20%. In Sun City West, the
24 percentage of commercial usage appears to be stable.

1 Moreover, increases in GPCD usage caused by disproportionate increases in
2 commercial water usage are not typically caused by excessive usage on the
3 part of the commercial user. A commercial user can be extremely water
4 efficient, but because of the magnitude of the use in relationship to total
5 customer deliveries, still cause the GPCD to increase above anticipated
6 levels. This is particularly true of system with a small water use based.
7

8 For example, assume 123 Water Company delivers 1000 acre-feet to a
9 community of 2000 people in 1998. 250 acre-feet of the 1000 acre-feet is
10 delivered to commercial customers. 123 Water Company uses no more or
11 less water than its GPCD requirement allows (good conservation program)
12 giving 123 Water Company a GPCD requirement of 446. The residential
13 portion of the requirement is 334 GPCD. The commercial portion is 112
14 GPCD.
15

16 In 1999, a new golf course comes on line in the service area that meets
17 ADWR's industrial-conservation-program turf allotment. The turf allotment
18 for the course is 500 acre-feet. In the same year, 100 additional people
19 move into 123 Water Company's service area. The conservation
20 requirement now allows 1,049 acre-feet of demand, but 123 Water
21 Company's demand is 1,549 acre-feet. While 123 Water Company has
22 exceeded its conservation requirement, the overage is not caused by
23 wasteful water use. In fact, the golf course is in compliance with the
24 industrial conservation requirement established by ADWR. It is caused by a
25 disproportionate increase in commercial water use in 123 Water Company.
26
27
28
29

1 Q. Should the costs of using CAP water be imposed on the higher water using
2 accounts as recommended by RUCO?

3 A. No. Every customer causes the need to use CAP water regardless of
4 whether a customer uses one gallon of groundwater or 500,000 gallons.
5 RUCO's recommended rate design essentially places the entire burden of
6 paying for the costs of CAP on the commercial customers. In 1998, the
7 combined commercial demand in Sun City and Sun City West was
8 approximately 3,600 acre-feet. To label the commercial users as the "cost
9 causers" and burden those users with paying for costs associated with
10 6,561 acre-feet of CAP water is grossly unfair.

11
12 In her testimony, Ms. Diaz Cortez establishes allowable monthly usage
13 levels, based on the Total GPCD requirements for Sun City Water Company
14 and Sun Cities West Utilities Company, and proposes that the surcharge be
15 applied to consumption exceeding these allowable levels. Ms. Diaz Cortez'
16 analysis fails to consider the complexity of the Total GPCD requirement, a
17 requirement that is actually made up of several smaller components with
18 unique conservation requirements for each component. For example, the
19 Total GPCD requirement includes a GPCD component for lost-and-
20 unaccounted-for water. As another example, the Total GPCD requirement
21 includes a GPCD component for households constructed before 1990 and
22 for households constructed between 1990 and 1995 and then again for
23 households constructed after 1995. To meet the Total GPCD requirement,
24 households constructed after 1990 are expected to be considerably more
25 water efficient than those constructed before 1990. Households
26 constructed after 1995 are expected to be even more efficient than the
27 households that came on line between 1990 and 1995.

1 It is not consistent with the Total GPCD requirements to set an allowable
2 monthly usage of 15,000 gallons or 11,000 gallons and assume that water
3 use below these levels is deemed efficient. Moreover, this approach is not
4 consistent with a water-conservation-oriented rate structure that sends
5 proper pricing signals and protects life line uses.

6
7 In essence, Ms. Diaz Cortez is recommending that the existing
8 conservation-oriented rate structure be adjusted to have a more aggressive
9 pricing signal at water use levels above the allowable limits defined by
10 RUCO. While the existing conservation-oriented rate may or may not be
11 sending proper pricing signals, this proceeding is not the proper forum to
12 debate this issue. Determining an effective and fair conservation-oriented
13 rate structure would require a separate study and a separate proceeding.

14
15 In the final analysis, there is not enough CAP water available to meet even
16 the lifeline needs of customers let alone luxury needs. The Task Force
17 estimated that each household would receive roughly 3,500 gallons of CAP
18 water if shared equally throughout the service area. The rate design
19 proposed by the Task Force is the best rate design to recovery the costs
20 associated with CAP water.

21
22 Q. How does water conservation and use of CAP water relate to the
23 achievement of safe yield consistent with the Groundwater Management Act
24 of 1980?

25 A. The water management goal for the Phoenix Active Management Area, the
26 groundwater basin where Sun City Water Company and Sun City West
27 Utilities Company are located, is safe yield. Safe yield is defined as a long-
28
29

1 term balance between the amount of groundwater pumped from
2 underground aquifers and the amount of water that is naturally and
3 artificially recharged back into that same aquifer. Water conservation and
4 shifting to a renewable water supply like CAP water are two different tools
5 used by water managers to attain safe yield conditions.

6
7 Typically, water managers establish water budgets that allow a comparison
8 between the demands of a water service area and the supplies available for
9 use. Demand exceeding the amount of renewable supplies available is met
10 with mined groundwater. It is this supply deficit that requires water
11 managers to either seek an additional renewable supply of water or reduce
12 water demand in order to reach a balance between total demand and total
13 renewable water supply. In some respects, water conservation can be
14 likened to a renewable water supply.

15
16 Q. Can water conservation alone be used to reach safe yield?

17 A. No. A water provider totally dependent on groundwater would have to
18 reduce demand by 100% in order to eliminate the groundwater overdraft.

19
20 Q. Can use of renewable supplies alone be used to reach safe yield?

21 A. Yes, but such a unilateral approach is not consistent with sound water
22 management principles that prescribe to the concept of using water wisely
23 for a beneficial use. Moreover, water conservation is mandated by State
24 law as discussed above and is required under the terms of Citizens'
25 subcontracts for CAP water.

1 Q. Is it appropriate to link the costs of using CAP with a conservation-oriented
2 rate structure?

3 A. No. In this case, RUCO should view water conservation as an additional
4 renewable water supply, another tool water managers at Citizens can use
5 to attain safe yield in its service areas. The combination of using renewable
6 water supplies like CAP water, coupled with demand management
7 strategies like a conservation oriented rate structure, will ultimately allow
8 Citizens to be successful in mitigating historic groundwater declines in Sun
9 City and Sun City West.

10
11 Moreover, the use of CAP water should be rewarded not punished. Just as
12 the federal and state governments have heavily subsidized the cost of CAP
13 water to encourage the use of this supply, the Commission should likewise
14 encourage the use of CAP water. Encouragement can be in the form of a
15 carrot or a stick. Citizens recommends the carrot.

16
17 Finally, as indicated in Mr. Dabelstein's testimony, the CAP Task Force
18 specifically recommended the rate design proposed in this filing. While
19 RUCO's analysis of the allocation of these costs is thoughtful, the
20 community is really best suited to determine how to fairly allocate costs.
21 Citizens supports the Task Force's proposed cost allocation for the reasons
22 listed above, but primarily because the rate design reflects the wishes of
23 the community.

24
25 Q. Does this conclude your testimony?

26 A. Yes.

INTRODUCTION

Q. Please state your name and business address.

A. My name is Blaine H. Akine. My business address is 12425 W. Bell Road, Suite C306, Surprise, Arizona 85374.

Q. By whom are you employed and in what capacity?

A. I am employed by Citizens Utilities Company ("Citizens") and serve as the Engineering and Development Services Manager for Citizens' Water and Wastewater operations in Maricopa and Santa Cruz Counties.

Q. How long have you been employed by Citizens?

A. I have been employed by the Citizens for almost four years.

Q. What are your duties and responsibilities?

A. My duties and responsibilities include:

- managing engineering of plant improvements and replacements, including pipelines, wells, pumping and storage facilities.
- managing all development activities, including line extension agreement negotiations, related regulatory activity and filings, and tracking and accounting for agreement activity.

Q. What is your relevant education, training and experience?

A. I attended and graduated from the University of Hawaii with a Bachelor of Science degree in Civil Engineering. I also attended and graduated from Arizona State University with a Master of Business Administration degree. I am a member of several professional associations, including the American

1 Water Works Association, Water Environment Federation, American Society
2 of Civil Engineers, Arizona Water Pollution Control Association, American
3 Management Association and others.
4

5 Q. Do you hold any professional licenses?

6 A. Yes, I am a registered Professional Engineer in the State of Arizona.
7

8 Q. Have you presented testimony before any regulatory commissions?

9 A. Yes. I testified in a Certificate of Convenience and Necessity proceeding
10 before the Arizona Corporation Commission.
11

12 Q. What is the purpose of your testimony in this proceeding?

13 A. I am providing rebuttal testimony to the direct testimony of Mr. Dennis
14 Hustead for the Sun City Taxpayers Association.
15

16 Q. Do you agree with Mr. Hustead's opinion that it is not prudent to approve
17 the CAP Task Force's recommended plan before entering into enforceable
18 contracts with the golf courses?

19 A. No, I don't agree. I believe that the CAP Task Force's recommended plan
20 for using CAP Water on golf courses is a valid plan. Reviewing available
21 options and formulating a plan is the first step in any complex process. The
22 next step is obtaining any necessary regulatory approval of the plan. Once
23 the plan is approved the work focus will then be directed toward finalizing
24 and obtaining the numerous details to make the plan a reality. In this case,
25 one of the details will be to obtain all required agreements and contracts
26 with golf courses.
27
28
29

1 Q. Is there anything unique about this situation which supports your position?

2 A. Yes. The golf courses are owned and operated by the Recreation Centers
3 of Sun City and Sun City West. Each of these organizations was
4 represented on the CAP Task Force. Each Recreation Center participated in
5 the planning process and the ultimate decision to construct the
6 groundwater savings project. Members of the Recreation Centers then
7 debated and signed resolutions indicating their desire to enter into such
8 contracts and to participate in the groundwater savings project.
9

10 Q. Do you agree with Mr. Hustead's review of the CAP Task Force's proposed
11 Option 4.

12 A. No, I don't agree. Although Mr. Hustead's ideas on eliminating the storage
13 and pumping stations proposed within Option 4 may have merit, it is
14 premature to conclude that they are not needed. Assuming that Mr.
15 Hustead's statement regarding the original golf course storage design
16 concepts are true, it would be irresponsible to rely solely on those concepts
17 to modify operation of a facility with certain components that are nearly 30
18 years old. Clearly, additional review is warranted. The plan and cost
19 estimates prepared by Brown and Caldwell were purposely based on
20 conservative assumptions to compensate for the numerous unknowns that
21 could not be fully analyzed during the CAP Task Force process. This insured
22 that the CAP Task Force was given a valid option to consider rather than an
23 option which could prove to be invalid upon detailed engineering analysis
24

25 Q. How should Citizens properly address Mr. Hustead's pump station concerns
26 proposed within his Option 4 Modified?

27 A. Once the Task Force's plan is approved, surveys are completed and final
28 design flow rates are established, a detailed engineering hydraulic analysis
29

1 of the proposed system will need to be completed during the project's
2 preliminary design phase. This study will optimize the design and, if
3 warranted, required booster pumping and piping will be reduced or
4 eliminated.

5
6 Q. How should Citizens properly address Mr. Hustead's storage concerns
7 proposed within his Option 4 Modified?

8 A. Once the Task Force's plan is approved, a detailed engineering analysis of
9 the golf course reservoirs will need to be completed during the project's
10 preliminary design phase to verify the actual storage available and required
11 for each golf course. Only after the completion of this engineering analysis
12 can a final decision be reached on the adequacy of the existing storage
13 system. As mentioned by Mr. Hustead, the reservoir system will need to be
14 properly designed to handle seasonal peak demands and also accommodate
15 different inflow and outflow conditions.

16
17 Q. Do you agree with Mr. Hustead's idea in his Option #4 Modified that the
18 most cost effective way to maximize CAP water deliveries is to maximize
19 the use of the existing Sun City West golf course distribution system and
20 thereby minimize the installation of new distribution systems within Sun
21 City?

22 A. No, I don't agree. Mr. Hustead improperly stated that 5161 AF/Yr of CAP
23 water could be delivered to Sun City West through the existing pipeline
24 distribution system. In reality, only 2,985 AF/Yr of CAP water can be
25 delivered to the Sun City West system. Although the irrigation demand for
26 all the golf courses in Sun City West is 5451 AF/Yr, CAP water cannot be
27 used on the two expansion area golf courses and the two private golf
28 courses.

1 Q. Why can't CAP water be used for the expansion area golf courses and the
2 private courses?

3 A. Regulatory constraints prohibit the use of CAP water on the expansion golf
4 courses. Per Maricopa County requirements, the expansion golf courses
5 are required to irrigate using 100% effluent water. Further, the only golf
6 courses in Sun City West that should benefit from participation in the
7 groundwater savings project are the public courses because the water
8 demand of the public courses (2985 AF/Yr) exceeds the total Sun City West
9 CAP allocation. Finally, the private courses did not participate in the CAP
10 Task Force process. According to the Sun City Homeowners Association,
11 they have not expressed any interest in participating in the groundwater
12 savings project and prefer to continue to rely on mining groundwater.

13
14 Q. What does this leave for delivery to the Sun City West golf courses?

15 A. The demands for the expansion golf courses and the private golf course are
16 970 AF/Yr and 1496 AF/Yr, respectively. Subtracting these demands from
17 the Sun City West total golf course demand of 5451 AF/Yr leaves 2,985
18 AF/Yr of CAP water that can be delivered to and used by the Sun City West
19 golf courses. This CAP demand for Sun City West is only 613 AF/Yr more
20 than the 2372 AF/Yr already allocated to Sun City West. A summary table
21 is provided as Attachment BA -1.

22
23 Q. Would the Sun City West pipeline distribution system even be able to
24 operate the way Mr. Hustead suggests?

25 A. I don't know. The existing Sun City West pipeline distribution system was
26 constructed over 20 years ago with different design conditions. Whether it
27 would be able to operate as Mr. Hustead suggests is unknown.

1 Q. Do you agree with Mr. Hustead's idea that there could be a valid alternative
2 plan to build a joint CAP transmission pipeline with the Agua Fria Division
3 and thereby reducing the costs to Sun City/Sun City West?

4 A. No, I don't agree. The plan and the timing for required physical delivery of
5 CAP water into the Agua Fria Division differs from the proposed CAP Task
6 Force Plan and thereby eliminates all opportunities to build a joint
7 transmission pipeline system.

8
9 Q. Does Citizens have a current plan to use its allocated CAP water within it's
10 Agua Fria Division?

11 A. Yes, Citizens' plan is to use the Maricopa Water District (MWD) groundwater
12 savings project until a permanent project is developed. Citizens has also
13 retained the consulting services of Brown and Caldwell to complete a
14 Central Agua Fria Master Plan. This water master plan will address the
15 timing and best ultimate use of CAP water within the Agua Fria Division.

16
17 Q. When will the Central Agua Fria Master Plan be completed?

18 A. Brown and Caldwell are under contract with Citizens to complete this
19 master plan by the end of year.

20
21 Q. What will likely be the ultimate CAP plan proposed within the Central Agua
22 Fria Master Plan?

23 A. The ultimate plan will likely propose that an Agua Fria Division CAP
24 treatment plant be built and operational not earlier than year 2005. The
25 timing of construction of the plant will coincide with the anticipated
26 customer growth within the Division. The Agua Fria Division CAP treatment
27 plant will likely be constructed somewhere near Greenway Road along the
28 Agua Fria Division's west CC&N boundary. Although one possible plan for
29

1 delivery of water from the CAP Canal to the treatment plant will be via a
2 pipeline, the actual need and/or size of pipeline can only be finalized after
3 fully analyzing the MWD Beardsley Canal. This analysis will be completed
4 as part of the master planning process. Due to its physical alignment along
5 the Agua Fria Division's north boundary and the fact that the Agua Fria
6 Division customers are also MWD shareholders, the Beardsley Canal
7 presents a major opportunity for transportation of CAP water within the
8 Agua Fria Division.
9

10 Q. Given that the Agua Fria Division's CAP treatment plant is not required at
11 least until year 2005 and the uncertainty of a needed pipeline, do you think
12 that the Agua Fria Division should participate at this time with the Sun
13 City/Sun City West project?

14 A. No, I don't. As explained earlier, the required construction timing of the
15 Agua Fria Division's CAP pipeline and treatment plant is under a much
16 longer timeframe than the Sun City/Sun City West CAP project. The Agua
17 Fria Division also has the immediately available alternative of using the
18 MWD Beardsley canal to convey CAP water. There is a good possibility that
19 a CAP transmission pipeline may never be required for the Agua Fria
20 Division.
21

22 Q. Does this conclude your testimony?

23 A. Yes.
24
25
26
27
28
29

**SUMMARY OF CAP WATER DELIVERIES
TO SUN CITY WEST GOLF COURSES**

Total Sun City West Golf Course Irrigation Demand:	5451 AF/Yr
Less: Demand to Two Expansion Golf Courses:	970 AF/Yr
Less: Demand to Two Private Golf Courses:	<u>1496 AF/Yr</u>
Total Available Demand to Offset with CAP Water:	2985 AF/Yr
Less: CAP Water Allocated to Sun City West:	<u>2372 AF/Yr</u>
Total Available Additional Demand to Offset with CAP Water:	613 AF/Yr